

**New Issue
Book-Entry Only**

**Moody's Rating: Aaa
Standard & Poor's Rating: AAA
(See Other Bond Information—Ratings herein.)**

In the opinion of Bond Counsel, under existing law and assuming compliance by the City with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "Tax Exemption" and "Certain Other Federal Tax Consequences" under "Legal and Tax Information" herein.

\$5,500,000
The City of Seattle, Washington
Solid Waste Revenue Bonds, 1999, Series B

DATED: October 1, 1999

DUE: November 1, as shown below

The Bonds will be issued as fully registered bonds under a book-entry only system, registered in the name of Cede and Co. as bond owner and nominee for DTC. DTC will act as initial securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds. Interest on the Bonds will be paid semiannually on each May 1 and November 1, commencing May 1, 2000. The principal of and premium, if any, and interest on the Bonds are payable by the City's Bond Registrar, currently the fiscal agent of the State of Washington (currently The Bank of New York in New York, New York, and its co-fiscal agent, Wells Fargo Bank, N.A., in Seattle, Washington), to DTC, which in turn is obligated to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described in "Description of the Bonds—Book-Entry Bonds" and in Appendix D.

The Bonds are being issued to provide funds for certain capital improvements and additions to the Solid Waste System and to pay certain costs of issuing and selling the Bonds.

The Bonds are subject to redemption prior to maturity as described herein.

The Bonds are special limited obligations of the City payable from and secured solely by the Net Revenue of the Solid Waste System and by money in the Bond Account. This pledge constitutes a lien and charge on Net Revenue on a parity with that of any other Parity Bonds and prior and superior to any other lien or charge. See "Security for the Bonds."

The Bonds do not constitute general obligations of the City, the State of Washington or any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the City, the State or any political subdivision of the State not specifically pledged thereto by the ordinance authorizing the Bonds. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Solid Waste System, are pledged to the payment of the Bonds.

<u>Due November 1</u>	<u>Amounts</u>	<u>Interest Rates</u>	<u>Yields or Prices</u>	<u>Due November 1</u>	<u>Amounts</u>	<u>Interest Rates</u>	<u>Yields or Prices</u>
2000	\$ 165,000	4.75%	4.00%	2010	\$ 265,000	5.30%	100%
2001	180,000	4.75	4.30	2011	280,000	5.40	100
2002	185,000	4.75	4.40	2012	295,000	5.50	100
2003	195,000	4.75	4.55	2013	310,000	5.50	5.60
2004	200,000	5.00	4.70	2014	330,000	5.60	5.70
2005	210,000	5.00	4.80	2015	345,000	5.70	5.80
2006	220,000	5.00	4.90	2016	365,000	5.80	5.90
2007	230,000	5.00	100	2017	385,000	5.90	5.95
2008	245,000	5.10	100	2018	410,000	5.90	5.98
2009	255,000	5.20	100	2019	430,000	5.90	6.00

(Plus accrued interest from the dated date.)

Payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds. See "Other Bond Information—Municipal Bond Insurance" herein.

Ambac

The Bonds are offered for delivery by the Purchaser, when, as and if issued, subject to the approving legal opinion of Foster Pepper & Shefelman PLLC, Seattle, Washington, Bond Counsel. The form of Bond Counsel's opinion is attached hereto as Appendix B. It is expected that the Bonds will be ready for delivery at the facilities of DTC in New York, New York, on or about October 26, 1999.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire official statement to obtain information essential to the making of an informed investment decision.

Dated: October 19, 1999

The City of Seattle
City Officials and Consultants

Mayor and Council

Paul Schell	Mayor
Sue Donaldson	President, City Council
Richard Conlin	Council Member
Jan Drago	Council Member
Nick Licata	Council Member
Richard McIver	Council Member
Margaret Pageler	Council Member
Tina Podlodowski	Council Member
Peter Steinbrueck	Council Member
(Vacant Position)	Council Member

City Administration

Dwight D. Dively	Executive Services Director and Finance Director
Mark Sidran	City Attorney

Seattle Public Utilities

Diana Gale	Managing Director
Debbie Broughton	Finance and Administration Branch Executive
Pat Colson	Customer Service Branch Executive
Scott Haskins	Resource Management Branch Executive
Tom Tanner	Engineering Services Branch Executive
Raj Manhas	Field Operations Branch Executive

Financial Advisor

Seattle-Northwest Securities Corporation
Seattle, Washington

Bond Counsel

Foster Pepper & Shefelman PLLC
Seattle, Washington

No dealer, broker, salesperson, or other person has been authorized by the City to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of the Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create an implication that there has been no material change in the affairs of the City since the date of this Official Statement.

The information set forth herein has been obtained from the City and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness.

Table of Contents

	<u>Page</u>
Description of the Bonds	1
Registration and Denomination	1
Redemption of Bonds	1
Open Market Purchase	2
Book-Entry Transfer System	2
Refunding or Defeasance of Bonds	2
Use of Proceeds	2
Sources and Uses of Funds	3
Security for the Bonds	3
Pledge of Net Revenue	3
Reserve Subaccount	3
Outstanding Parity Bonds	3
Additional Obligations	4
Other Covenants	4
Rate Stabilization Account	4
Combined Utility Systems	4
Separate Utility Systems	5
Debt Service Schedule	5
Seattle Public Utilities	5
Administrative Structure	5
Management	6
Employee Relations	7
The Solid Waste System	7
Solid Waste Operations	8
Year 2000	10
Legal Developments	10
Revenues	11
Rates	13
Solid Waste Comprehensive Plan	14
Future Capital Improvements	14
Historical Operating Results	15
Projected Operating Results	15
Potential Implications of Flow Control for the Solid Waste System	18
The City of Seattle	18
Municipal Government	18
Financial Management	18
Risk Management	20
Pension System	20
Labor Relations	20
Year 2000	20
Demographic and Economic Information	21
Legal and Tax Information	32
Litigation	32
Approval of Counsel	32
Tax Exemption	32
Certain Other Federal Tax Consequences	33
Continuing Disclosure Undertaking	34
Other Bond Information	35
Municipal Bond Insurance	35
Ratings	38
Purchaser of the Bonds	38
The Bank of New York Year 2000 Compliance	39
Official Statement	39
Ordinance	Appendix A
Form of Bond Counsel Opinion	Appendix B
1998 Audited Financial Statements of the Solid Waste System	Appendix C
Book-Entry Transfer System	Appendix D
Specimen Municipal Bond Insurance Policy	Appendix E

OFFICIAL STATEMENT

\$5,500,000

The City of Seattle, Washington

Solid Waste Revenue Bonds, 1999, Series B

This Official Statement, which includes the cover page and the appendices, contains certain information concerning The City of Seattle (the “City” or “Seattle”), Seattle Public Utilities (“SPU”), the City’s solid waste system (the “Solid Waste System”), and the City’s Solid Waste Revenue Bonds, 1999, Series B (the “Bonds”), in connection with the offering and sale of the Bonds.

The Bonds are being issued to provide funds for certain capital improvements and additions to the Solid Waste System and to pay certain costs of issuing and selling the Bonds. The Bonds are being issued pursuant to Ordinance 119648 passed by the City Council on September 7, 1999 (the “Ordinance”), Resolution 30061 adopted on October 19, 1999 (the “Resolution”) (collectively, the “Bond Legislation”), chapters 35.67 and 35.92 Revised Code of Washington (“RCW”), and the Seattle City Charter.

Appendix A to this Official Statement is a copy of the Ordinance. Appendix B is the form of approving legal opinion of Foster Pepper & Shefelman PLLC of Seattle, Washington (“Bond Counsel”). Appendix C is the audited 1998 financial statements of the Solid Waste System. Appendix D contains information on book-entry bonds supplied by DTC and the City. Appendix E provides a specimen municipal bond insurance policy. Capitalized terms which are not defined herein have the same meanings as set forth in the Bond Legislation.

Description of the Bonds

Registration and Denomination

The Bonds are issuable only as fully registered bonds and when issued will be registered in the name of Cede and Co. as registered owner and nominee for the Depository Trust Company (“DTC”), New York, New York. DTC will act as initial securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased.

The Bonds will be dated October 1, 1999. The Bonds will mature on the dates and in the amounts and will bear interest (payable semiannually on each May 1 and November 1, commencing May 1, 2000) at the rates set forth on the cover of this Official Statement. Principal is payable on November 1, in the amounts and years set forth on the cover of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. The principal of and premium, if any, and interest on the Bonds are payable by the City’s Bond Registrar, currently the fiscal agent of the State of Washington (the “State”) (currently The Bank of New York in New York, New York, and its co-fiscal agent, Wells Fargo Bank, N.A., in Seattle, Washington), to DTC, which in turn is obligated to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described herein under “Description of the Bonds—Book-Entry Transfer System” and in Appendix D.

Redemption of Bonds

Optional Redemption. The Bonds maturing in the years 2000 through 2009, inclusive, are not subject to redemption prior to maturity. The Bonds maturing on and after November 1, 2010, are subject to redemption prior to maturity at the option of the City on and after November 1, 2009, as a whole or in part at any time (maturities to be selected by the City, and within a maturity by lot in such manner as the Bond Registrar may determine and, so long as the Bonds are held in book-entry form, in accordance with the procedures

established by the securities depository) at the following prices (expressed as a percentage of par), plus accrued interest.

Redemption Dates

November 1, 2009, through October 31, 2010

November 1, 2010, and thereafter

Redemption Price

101%

100

Notice of Redemption. Notice of any intended redemption will be given not less than 30 nor more than 60 days prior to the redemption date by first-class mail, postage prepaid, to the registered owner of any Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice. The requirements of this section will be deemed to have been fulfilled when the notice is mailed, whether or not it is actually received by the registered owner of any Bond. As long as the Bonds are held in book-entry form, notices will follow procedures established by the securities depository.

Open Market Purchase

The City reserves the right to purchase any or all of the Bonds in the open market at any time at any price acceptable to the City plus accrued interest to the date of purchase.

Book-Entry Transfer System

Book-Entry Bonds. DTC will act as initial securities depository for the Bonds. The ownership of one fully registered Bond for each maturity of the Bonds, as set forth on the cover of this Official Statement, each in the aggregate principal amount of such maturity, will be registered in the name of Cede and Co., as nominee for DTC. See Appendix D for additional information. *As indicated herein, certain information in Appendix D has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds should confirm its contents with DTC or its participants.*

Termination of Book-Entry Transfer System. If DTC resigns as the securities depository and the City is unable to retain a qualified successor to DTC, or if the City determines that a continuation of the system of book-entry transfer is not in the best interests of the City, the City will deliver at no cost to the beneficial owners of the Bonds or their nominees Bonds in registered certificate form, in the denomination of \$5,000 or any integral multiple thereof. Thereafter, the principal of the Bonds will be payable upon due presentment and surrender at the principal office of the Bond Registrar. Interest on the Bonds will be payable by check or draft mailed on the interest payment date to the persons in whose names the Bonds are registered, at the address appearing upon the Bond Register on the 15th day of the month preceding an interest payment date or, at the request of the owner of \$1,000,000 or more in aggregate principal amount of Bonds, by wire transfer to the account in the United States designated in writing by the owner prior to the Record Date. The Bonds will be transferable as provided in the Ordinance.

Refunding or Defeasance of Bonds

The City may issue refunding bonds or use money available from any other lawful source to redeem and retire, release, refund, or defease the Bonds or any portion thereof (the "Defeased Bonds"). If sufficient money and/or Government Obligations, taking into account known earned income from the investment thereof, are set aside in a special fund pledged to the redemption, retirement or defeasance of the Defeased Bonds (the "Trust Account"), then all right and interest of the owners of the Defeased Bonds in the pledges and covenants of the Ordinance and in the revenues and the funds and accounts pledged to the payment of the Defeased Bonds will cease and become void. Such owners thereafter will receive payment of the principal of and interest or redemption price on the Defeased Bonds from the Trust Account. See Appendix A—Section 22, Refunding or Defeasance of Bonds.

Use of Proceeds

The Bonds are being issued to provide funds for certain capital improvements and additions to the Solid Waste System (the "Plan of Additions") and to pay certain costs of issuing and selling the Bonds.

Sources and Uses of Funds

The proceeds of the Bonds (less accrued interest) will be applied as follows:

Sources of Funds

Par Amount of Bonds	\$ 5,500,000
Original Issue Discount	<u>(12,466)</u>
Total Sources of Funds	<u>\$ 5,487,534</u>

Uses of Funds

Project Funds and Costs of Issuance	\$ 5,417,500
Underwriter's Discount and Bond Insurance*	<u>70,034</u>
Total Uses of Funds	<u>\$ 5,487,534</u>

* Paid by underwriter.

Security for the Bonds

Pledge of Net Revenue

The Bonds are special limited obligations of the City payable from and secured solely by the Net Revenue of the Solid Waste System and by money in the Bond Account, including the Reserve Subaccount. The Bond Account has been created in the Solid Waste System for the sole purpose of paying the principal of and interest on the Parity Bonds, including the Bonds. The Bond Account consists of the Principal and Interest Subaccount, the Reserve Subaccount and any additional subaccounts deemed necessary by the City. The City has agreed to pay into the Principal and Interest Subaccount, on or prior to the respective dates on which principal of and interest on the Parity Bonds are payable, certain amounts from the Net Revenue of the Solid Waste System sufficient to pay such principal and interest when due, as required by the Ordinance. This pledge constitutes a lien and charge on the Net Revenue prior and superior to any other lien or charge. See Appendix A—Section 13, Security for Parity Bonds and Section 14, Flow of Funds.

The Bonds do not constitute general obligations of the City, the State of Washington (the “State”) or any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the City, the State or any political subdivision of the State not specifically pledged thereto by the Ordinance. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Solid Waste System, are pledged to the payment of the Bonds.

Reserve Subaccount

The Reserve Subaccount has been created in the Bond Account to secure the payment of the principal of and interest on the Parity Bonds. The City will maintain the Reserve Subaccount at the lesser of Maximum Annual Debt Service or the maximum amount permitted by the Internal Revenue Code of 1986, as amended (the “Code”), as a “reasonably required reserve or replacement fund” (the “Reserve Requirement”), so long as any Parity Bonds remain outstanding. Under the Ordinance, the City may provide all or any portion of the Reserve Requirement with Qualified Insurance (“Reserve Insurance”). The City has purchased Reserve Insurance in an amount that satisfies the Reserve Requirement for the Bonds and the Outstanding Parity Bonds. See Appendix A—Section 1, Definitions and Section 14, Security for Parity Bonds.

Outstanding Parity Bonds

The only outstanding obligations (other than the Bonds) payable from the Bond Account are the Solid Waste Revenue Refunding Bonds, 1999, of the City issued in February 1999 (the “Outstanding Parity Bonds”), currently outstanding in the amount of \$37,065,000. The Outstanding Parity Bonds, the Bonds and any Future Parity Bonds are referred to collectively herein as the “Parity Bonds.”

Additional Obligations

Future Parity Bonds. Future Parity Bonds may be issued upon satisfaction of certain conditions set forth in the Ordinance. Among other conditions, at the time of the delivery of the Future Parity Bonds to the initial purchasers, the City must have on file a certificate of both the Finance Director and the Director of SPU (the “Parity Certificate”) demonstrating either (i) that during any 12 consecutive months out of the immediately preceding 24 months Adjusted Net Revenue, taking into account certain revenue adjustments, was at least equal to 1.25 times the Annual Debt Service (the “Coverage Requirement”) for all Parity Bonds plus the Future Parity Bonds proposed to be issued or (ii) that, in the opinion of both the Finance Director and the Director of SPU, the Adjusted Net Revenue will be at least equal to the Coverage Requirement for the five years next following the earlier of (a) the end of the period during which interest on the Future Parity Bonds to be issued is capitalized or, if no interest is capitalized, the year in which the Future Parity Bonds are issued or (b) the date on which all facilities financed with those Future Parity Bonds are expected to begin operations. See Appendix A—Section 16, Issuance of Future Parity Bonds.

Parity Payment Agreements. The City may enter into one or more Parity Payment Agreements secured by a pledge and lien on Net Revenue on a parity with the Bonds subject to the satisfaction of the requirements for the issuance of Future Parity Bonds. See Appendix A—Section 1, Definitions and Section 16, Issuance of Future Parity Bonds.

Contract Resource Obligations. The City may enter into one or more Contract Resource Obligations for the acquisition, from facilities to be constructed, of solid waste collection, transportation, treatment, or disposal or other commodity or service related to the Solid Waste System and may determine that all payments under the Contract Resource Obligation (including payments prior to the time such supply or service is being provided, or during a suspension or after termination of supply or service) will be a Maintenance and Operation Expense, upon compliance with certain requirements of the Ordinance. See Appendix A—Section 19, Contract Resource Obligations.

Future Subordinate Lien Bonds. In the Ordinance, the City has reserved the right to issue revenue bonds or other obligations having a lien on Net Revenue subordinate to the lien of the Parity Bonds.

Rate Covenant

The City has covenanted to establish, maintain and collect rates and charges for solid waste services and facilities which will produce Adjusted Net Revenue in each fiscal year at least equal to the Coverage Requirement. See Appendix A—Section 15, Parity Bond Covenants.

Other Covenants

The City has entered into other covenants, including those with respect to (i) maintenance of the Solid Waste System, (ii) sale of the Solid Waste System and (iii) preservation of tax exemption for interest on the Bonds. See Appendix A—Section 15, Parity Bond Covenants and Section 21, Preservation of Tax Exemption for Interest on Bonds.

Rate Stabilization Account

The City may deposit Gross Revenue and other money into the Rate Stabilization Account and may withdraw money from that account for inclusion in Adjusted Gross Revenue for any fiscal year of the City. No deposit of Gross Revenue will be made into the Rate Stabilization Account to the extent that such deposit would prevent the City from meeting the Coverage Requirement. See Appendix A—Section 17, Rate Stabilization Account.

Combined Utility Systems

The City has reserved the right to combine the Solid Waste System with other City utility systems. See Appendix A—Section 1, Definitions.

Separate Utility Systems

The City has reserved the right to create, acquire, construct, finance, own, and operate one or more additional systems for solid waste collection, transportation, treatment, or disposal, or other commodity or service related to the Solid Waste System. The revenue of that separate utility system will not be included in the Gross Revenue of the Solid Waste System and may be pledged to the payment of any revenue obligations issued with respect thereto. See Appendix A—Section 18, Separate Utility Systems.

Debt Service Schedule (Years Ending December 31)

The following table shows the debt service to be paid from the Net Revenue of the Solid Waste System, as of October 1, 1999, including the Bonds.

Solid Waste System Debt Service Requirements

Year	Outstanding Parity Bonds			The Bonds			Total Debt Service
	Principal	Interest	Total	Principal	Interest	Total	
2000	\$ 2,930,000	\$ 1,956,538	\$ 4,886,538	\$ 165,000	\$ 321,991	\$ 486,991	\$ 5,373,529
2001	3,070,000	1,817,363	4,887,363	180,000	289,385	469,385	5,356,748
2002	3,220,000	1,663,863	4,883,863	185,000	280,835	465,835	5,349,698
2003	3,390,000	1,494,813	4,884,813	195,000	272,048	467,048	5,351,860
2004	3,570,000	1,316,838	4,886,838	200,000	262,785	462,785	5,349,623
2005	3,755,000	1,129,413	4,884,413	210,000	252,785	462,785	5,347,198
2006	3,950,000	932,275	4,882,275	220,000	242,285	462,285	5,344,560
2007	4,160,000	724,900	4,884,900	230,000	231,285	461,285	5,346,185
2008	4,390,000	496,100	4,886,100	245,000	219,785	464,785	5,350,885
2009	4,630,000	254,650	4,884,650	255,000	207,290	462,290	5,346,940
2010	0	0	0	265,000	194,030	459,030	459,030
2011	0	0	0	280,000	179,985	459,985	459,985
2012	0	0	0	295,000	164,865	459,865	459,865
2013	0	0	0	310,000	148,640	458,640	458,640
2014	0	0	0	330,000	131,590	461,590	461,590
2015	0	0	0	345,000	113,110	458,110	458,110
2016	0	0	0	365,000	93,445	458,445	458,445
2017	0	0	0	385,000	72,275	457,275	457,275
2018	0	0	0	410,000	49,560	459,560	459,560
2019	0	0	0	430,000	25,370	455,370	455,370
	<u>\$ 37,065,000</u>	<u>\$ 11,786,750</u>	<u>\$ 48,851,750</u>	<u>\$ 5,500,000</u>	<u>\$ 3,753,344</u>	<u>\$ 9,253,344</u>	<u>\$ 58,105,094</u>

Seattle Public Utilities

Administrative Structure

Seattle's water, drainage, wastewater, and solid waste utility services were consolidated administratively into a single entity known as Seattle Public Utilities ("SPU") in 1997. The consolidation provides ease of access, coordinated emergency response and simplicity of communications through one-call handling of service requests. Bringing several utility functions under a single management structure has reduced redundancy and unnecessary specialization.

Within SPU, there are four separate funds: the Water Fund, the Drainage and Wastewater Fund, the Solid Waste Fund, and the Engineering Services Fund. Each will remain as a separate fund at least until certain bonds issued for the Water System and for the Drainage and Wastewater System have been redeemed or defeased. The financial structure and accounting procedures of SPU are designed to preserve fund integrity so that the appropriate revenue and cost streams for each of the utility systems and service functions are assigned to the proper fund.

Management

SPU consists of the Managing Director's Office and five Executive Branches, as follows:

- **Managing Director's Office:** provides overall management and policy direction, and coordinates internal and external communication.
- **Finance and Administration Branch:** provides financial, human resources and information technology services to support SPU.
- **Customer Service Branch:** operates the call and walk-in centers for SPU and Seattle City Light customers, and manages SPU's meter reading, customer billing and audit functions.
- **Resource Management Branch:** develops SPU's long term resource plans; promotes environmental stewardship of natural resources; manages SPU's capital improvement program, watersheds and drinking water quality and supply programs; and coordinates SPU's community and environmental outreach.
- **Engineering Services Branch:** provides design, project management, construction management, and other engineering support services to SPU; provides engineering services to other City departments and several regional agencies on a compensated basis.
- **Field Operations Branch:** operates, maintains, repairs, and constructs the City's water, sewer, drainage, and solid waste facilities and infrastructure; maintains warehousing facilities for SPU and Seattle Transportation; and manages SPU's Emergency Management and Response functions.

SPU is headed by a Managing Director, who administers SPU in accordance with policies established by the Mayor and the City Council. Brief biographies of the members of SPU's Executive Management Team follow:

Diana Gale, Managing Director. Ms. Gale became Managing Director of SPU when it was created in 1997. Previously, Ms. Gale served as the Superintendent of the Seattle Water Department. Prior to that she was the City's Director of the Office of Management and Budget (now the City's Budget Office). Before working as Budget Director, she was the Director of the Solid Waste Utility, where she initiated nationally recognized recycling and composting programs that have led Seattle to a 44 percent recycling rate. Previously, she was the Executive Director of the City's Legislative Department.

Ms. Gale is a member of the National Drinking Water Advisory Council and the Washington State Drinking Water Advisory Committee, the Chair of the Tailored Collaboration Committee (a research committee of the American Water Works Research Foundation), and on the board of Long Live the Kings (a local salmon restoration organization). Ms. Gale earned her Bachelor of Arts degree in history and political science from Wellesley College and her master's and doctorate degrees in urban planning from the University of Washington.

Debbie Broughton, Finance and Administration Branch Executive. Before joining SPU, Ms. Broughton was the Chief Administrative Officer for Kitsap County, where she was responsible for the general fund, utility fund and capital improvement budgets for the county. In addition, she was responsible for five divisions of Kitsap County government including Risk Management, Information Services, Facilities, Project Management, and Public Defense. She also spent seven years on the Seattle City Council staff as a financial and rate analyst and worked as an economist for a national consulting engineering firm. Ms. Broughton is a graduate of the University of Washington where she studied business administration and economics.

Pat Colson, Customer Service Branch Executive. Ms. Colson served most recently as the Water Department's Account Services Director and prior to that as Customer Assistance Manager. Before coming to the City, Ms. Colson managed a division of the State Department of Agriculture. Ms. Colson served on the faculty of Shoreline Community College, and has taught high school. She holds baccalaureate and master's degrees from the University of Washington.

Scott Haskins, Resource Management Branch Executive. Until his appointment as SPU branch executive, Mr. Haskins served as the Water Department's Deputy Superintendent, overseeing management, financial and administrative functions for the utility. He also has served as Finance Director for the Water Department. He is the past president of the Seattle Management Association, Chair of the West Coast Water Utilities Benchmarking Group and Chair of the Evergreen Chapter, American Society of Public Administration. Mr. Haskins currently is managing a City and consultant team effort to implement a \$100 million water filtration project through a design-build-operate contract. He holds a Bachelor of Arts degree in political science and a master's degree in public administration from the University of Washington.

Tom Tanner, Engineering Services Branch Executive. Mr. Tanner was appointed Engineering Services Branch Executive in September 1998, and oversees engineering, design, project management, and construction management for SPU, as well as for Seattle City Light and the Seattle Transportation Department. Mr. Tanner has held numerous leadership positions in public works organizations, including appointments as Public Works Director for the Navy Public Works in Norfolk, Virginia; Public Works Director for Puget Sound Naval Shipyard; Chief Engineer for Navy facilities and utilities in Washington, Oregon, Montana, and Alaska; and Director of the Navy's Civil Engineering School in Port Hueneme, California. Mr. Tanner holds a Bachelor of Science in civil engineering from California State University and a master's degree in public works management from the University of Pittsburgh. He is a graduate of Northwestern University's Executive Management Program and is a registered professional civil engineer.

Raj Manhas, Field Operations Branch Executive. Mr. Manhas previously served as Deputy Superintendent for Capital Improvement Projects for the Water Department. Trained as an engineer, he has extensive experience in managing operations in both the private and public sector. Prior to joining the Water Department, he was the Seattle Parks and Recreation Department Director of Facilities Maintenance and Development. Mr. Manhas has a Bachelor of Science in engineering from Punjab University, India, and a Master of Science in industrial engineering from the University of Washington.

Employee Relations

SPU has approximately 1,200 employees, almost all of whom are members of the City's Employee Retirement System. The Retirement System requires SPU, like all City departments, to make contributions equal to an actuarially determined percentage of covered payrolls. See "The City of Seattle—Pension System."

Approximately 75 percent of SPU employees are represented by unions, including (i) the Joint Crafts Council which includes the International Association of Machinists and Aerospace Workers District Lodge 79 and 289, the International Brotherhood of Electrical Workers Local 46, the Painters District Council 5, Public Service and Industrial Employees Local 1239, and the International Union of Operating Engineers Local 302; (ii) the Washington State Council of County and City Employees Local 21; (iii) the United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry Local 32; (iv) the Pacific Northwest District Council of Carpenters; and (v) the International Federation of Professional and Technical Engineers, which represents the greatest number of SPU employees. The City has reached agreement with its major unions on the terms of new three-year contracts that are effective through December 31, 2001. SPU considers relations with employees and the unions to be good. SPU has established a Joint Labor Management Committee to discuss potential labor issues and anticipates no serious problems in maintaining good labor relations.

The Solid Waste System

General

For almost a century, the City has contracted with private companies to collect garbage from Seattle residences. In 1961, solid waste operations were organized as a separate utility within the Engineering Department, and funding was changed from general taxes to fees for services provided. The City's solid waste system has been administered by SPU since January 1997.

Solid Waste Operations

Residential Collection. The City currently has contracts with eight private companies for residential solid waste collection. Two of these contracts are for the collection, within City limits, of residential garbage, bulky throwaway items and compostable yard waste. The City has contracts with two other firms for the collection of recyclable materials for single-family residences (which include up to four units) and with four additional firms for the collection of recyclable materials from multi-family residences (structures with five or more units). All of these residential collection contracts expire on March 31, 2000. Based on a request for proposals for residential collection services, the City selected two proposers to collect all residential solid waste (including garbage, recyclable materials and yard waste). The City has completed contract negotiations and expects to sign contracts by the end of October 1999 that will commence on April 1, 2000. However, another proposer that currently collects residential waste but was not selected for the new contracts filed a lawsuit seeking to enjoin the City from executing the new contracts. In a trial on the merits, King County Superior Court rejected the proposer's position; the appeal period is pending. The proposer also has filed a lawsuit seeking certain payments allegedly due at the termination of its existing contract.

Garbage is collected at least weekly from all residential structures within the City, with limited exceptions for those single- and multi-family structures in which residents have been certified as generating no disposable solid waste and for qualified vacant structures. Residential recycling services vary, with regard to schedule and separation of materials, between the six recycling haulers currently under contract with the City. There is no additional charge above the garbage rate for collection of recyclable materials. There is an initial set-up charge for multi-family residences in some areas of the City. Yard waste collection is an optional service with a \$4.25 monthly fee.

Commercial Collection. Seattle's nonrecyclable commercial waste is collected by two private companies franchised by the Washington Utilities and Transportation Commission ("WUTC"). The City currently is negotiating with the two commercial haulers to bring them under contract with the City. Recyclable materials from commercial establishments are collected by many private, nonregulated haulers. With limited exceptions, City ordinance prohibits collection of nonrecyclable waste within the City by companies that are not operating under City contract or WUTC franchise.

Transfer. As a form of flow control, City ordinance directs that all waste generated in the City (except for certain types of waste explicitly excluded by ordinance) must be taken to one of four transfer stations located in the City or to the railhead designated by ordinance as the receiving facility. Two of the transfer stations are owned and operated by the City, and two are private. See "Legal Developments."

Although City law permits nonrecyclable commercial waste to be taken to any of the four transfer stations, in actual practice most such waste is brought to the two private transfer stations and then, in accordance with City ordinance, is delivered to the designated railhead. Pursuant to contract, residential garbage is taken only to City-owned transfer stations and then delivered to the railhead. Currently, residential yard waste is delivered to either City-owned or private transfer stations, depending on the contract. From there, the yard waste is placed in containers and trucked to a regional composting facility. Residential and commercial recyclable materials that have been collected by haulers are delivered to private sorting facilities and also directly to processors.

The City-owned transfer stations receive garbage, yard waste and separated recyclable materials that have been hauled under the residential collection contracts or that are self-hauled by the general public and small businesses. Tipping fees are determined by type of waste, type of vehicle and/or weight of the load. As part of transfer station operations, the City delivers sealed containers of compacted garbage to the designated railhead, where they are offloaded onto railcars for shipment to the Columbia Ridge Landfill ("Columbia Ridge") in Arlington, Oregon.

The City also owns and operates two household hazardous waste facilities. At these sites, household hazardous waste is packed and shipped to special facilities for reprocessing or disposal.

The following table shows the amounts of solid waste disposed and recycled in the last five years.

Solid Waste Tonnages 1994-1998						
	1994	1995	1996	1997	1998	
Garbage						
Residential Collection	144,867	146,226	144,289	147,972	145,934	
Self-Haul Garbage	87,341	84,093	83,840	97,145	98,019	
Private Transfer Station	<u>194,767</u>	<u>196,702</u>	<u>194,969</u>	<u>208,670</u>	<u>213,646</u>	
Total Tons Disposed	426,975	427,021	423,098	453,787	457,599	
Garbage Disposed as a Percentage of Total Tons Generated	58%	56%	56%	56%	56%	
Recycling						
Private Recycling	189,250	209,084	207,676 (1)	210,282 (1)	213,270 (1)	
Residential Curbside Recycling	54,801	55,689	54,515	58,294	60,039	
Apartment Recycling	6,061	7,193	8,189	9,215	10,239	
Residential Curbside Yard Waste	37,073	40,745	39,333	43,130	40,546	
Self-Haul Yard Waste	11,997	11,939	11,519	14,138	13,034	
Self-Haul Wood Waste	839	957	1,230	1,482	1,351	
Self-Haul Recyclables	5,032	4,414	4,052	4,274	5,170	
Composting (2)	<u>6,785</u>	<u>10,299</u>	<u>11,581</u>	<u>12,443</u>	<u>13,284</u>	
Total Tons Recycled	311,838	340,320	338,095	353,258	356,933	
Recycling as a Percentage of Total Tons Generated	42%	44%	44%	44%	44%	
Total Tons Generated	738,813	767,341	761,193	807,045	814,532	

(1) Estimates are based on information in the Department of Ecology's 1995 Annual Recycling Survey.

(2) Composting figures are estimates based on surveys and include grasscycling and backyard food waste and yard waste composting.

Disposal. In 1990 the City signed a 38-year disposal contract with Washington Waste Systems ("Washington Waste"), a subsidiary of Waste Management, Inc. The disposal contract obligates the City to ensure that all nonrecyclable City waste (as defined in the contract), including commercial waste collected by private companies, be delivered to the Argo railyard for disposal by Washington Waste. Washington Waste has been using its Columbia Ridge landfill since the contract began. If Columbia Ridge were to close, Washington Waste would be obligated to deliver the waste to an identified alternative landfill. There is currently one other regional landfill competing with Washington Waste's Columbia Ridge; similar to Columbia Ridge, this landfill generates revenues primarily from long-term disposal contracts with local and regional governments. A new landfill, which also will compete with Columbia Ridge, is expected to begin operations in Idaho this fall.

In 1996, the disposal contract with Washington Waste was renegotiated and contract opt-out dates for the City of 2006, 2007 and 2008 replaced the original opt-out date of 2001. Opt-out dates give the City an opportunity to negotiate lower fees or terminate the contract. In return for a guaranteed contract until 2006, Washington Waste provided the City an immediate reduction in per ton disposal price, a second per ton decrease in 2002 and a decrease in the annual escalator. Another opt-out date of 2014 remains in place from the original contract.

The City operated two landfills from the late 1960s through the mid-1980s, both of which were designated by the U.S. Environmental Protection Agency ("EPA") as Superfund sites. In the early to mid-1990s, both landfills were closed and the post-closure maintenance and environmental monitoring period began. When

EPA determines that the landfills have completed successfully the required 30-year monitoring period, they could be opened to the public for development and recreation.

Year 2000

General. Many computer systems have allocated only two digits to data fields where the “calendar year” is stored, on the assumption that the first two digits will be “19.” As a result, on Saturday, January 1, 2000, many types of computer hardware, microchip-embedded equipment (such as digital clocks and elevator control systems) and computer software applications around the world may “think” that it is Monday, January 1, 1900. Some computer systems which utilize or create projected data relating to dates could be affected by the Year 2000 issue well in advance of January 1, 2000.

SPU's Compliance Plan. Since 1996, SPU has been working to identify, assess and resolve Year 2000 issues affecting the computer systems, including embedded systems, that support water supply, drainage and wastewater and solid waste services. All but one of the identified Year 2000 problems have been corrected. The single remaining item is scheduled for completion in early October 1999. Certification testing for identified systems will be completed early in the fourth quarter of 1999. In addition to identifying systems that are not Year 2000-compliant and implementing replacement or repair strategies, SPU has developed contingency plans to ensure continuity of service.

Solid Waste System. With respect to the Solid Waste System, all Year 2000 remediation work has been completed. At the transfer stations, scalehouse computer systems have been replaced with Year 2000 compliant software and hardware. Certification testing of related business systems is expected to be completed early in the fourth quarter of 1999. Year 2000 readiness of the industrial trash compactors was certified by an independent consultant. The automated flare facility for burning gas emissions at the Kent landfill has been tested and found to be Year 2000-ready. Contingency plans have been developed for all Solid Waste System business functions and appropriate equipment, including generators, has been purchased to allow execution of those plans if necessary. All contractors providing residential collection and disposal services have indicated that they are Year 2000-ready.

Billing System. The water, sewer and solid waste Combined Utility Billing System was upgraded to repair specific Year 2000 problems and placed in production in the third quarter of 1998. Acceptance testing to ensure Year 2000 compliance was completed at that time.

Summary. Based on the City of Seattle Year 2000 Program Office assessment completed at the end of the first quarter of 1999, SPU does not believe that the Year 2000 issues will result in a material adverse change in the business condition of the Solid Waste System or its ability to satisfy principal and interest payments on its bonds. However, the Year 2000 issue is a worldwide problem and SPU can make no assurances regarding the Year 2000 compliance status of systems and parties outside SPU's control. Furthermore, SPU cannot assess the potential effects of those systems' and parties' compliance on its financial position, results of operations and cash flows. However, SPU is taking precautions to insure continuation of all critical operations.

See also “Rates—Billing” and “The City of Seattle—Year 2000” herein.

Legal Developments

In recent years, a significant body of federal case law has developed around the issue of “flow control,” the required delivery of solid waste to a particular location. See “Potential Implications of Flow Control for the Solid Waste System.” In 1994, the U.S. Supreme Court held a municipal flow control ordinance to be unconstitutional. At issue in *C&A Carbone v. Clarkstown*, 511 U.S. 383 (1994) (“*Carbone*”) was an ordinance that required private haulers to deliver all solid waste generated within a town to a designated transfer station for processing. The Court concluded that the ordinance constituted economic protectionism and therefore was invalid under the commerce clause of the U.S. Constitution.

More recent decisions of the U.S. Court of Appeals for the First and Second Circuits support the authority of a municipality to require the use of a designated solid waste facility under contracts with solid waste handling companies. For example, in *SSC Corp. v. Town of Smithtown*, 66 F.3d 502 (2nd Cir. 1995) (“*Smithtown*”), the

Court confirmed municipal authority to include in a solid waste collection contract with a private company a provision requiring the company to deliver the town's solid waste to a designated facility. The contractual requirement did not violate the commerce clause of the U.S. Constitution because, in contracting for solid waste collection service, the town acted as a market participant rather than a market regulator. However, *Smithtown* invalidated the town's ordinance requiring that all waste generated within the town be taken to a designated disposal site. In *USA Recycling v. Town of Babylon*, 66 F.3d 1272 (2nd Cir. 1995) ("*Babylon*"), a town's decision to provide municipal collection, funded by taxes, through a single contractor was determined to constitute market regulation and was subject to the limitations of the commerce clause. However, the *Babylon* court concluded that there was no commerce clause violation because the town's action did not discriminate against interstate commerce; rather, the town had eliminated the market entirely.

The Second Circuit reaffirmed its decisions in *Smithtown* and *Babylon* in the case of *Sal Tinnerello & Sons, Inc. v. Town of Stonington*, 141 F.3d 46 (2nd Cir. April 3, 1998) ("*Tinnerello*"). The Town of Stonington had enacted an ordinance to assume control over the collection of commercially-generated waste and, following advertising and a competitive procurement process, awarded a collection contract to a single hauler. The court upheld the validity of the contract, ruling that a buyer of disposal services can dictate by contract where its contractor disposes of waste without violating the commerce clause.

The United States Court of Appeals for the First Circuit also recently analyzed commerce clause issues in the context of solid waste procurement in *Houlton Citizens' Coalition v. Houlton*, 175 F.3d 178 (1st Cir. 1999). In that case, the First Circuit ruled that a town's selection of an exclusive solid waste contractor did not violate the commerce clause of the U.S. Constitution because the town used a fair and open bidding process to select its contractor.

The U.S. Supreme Court declined to review the *Smithtown*, *Babylon* and *Tinnerello* decisions. There are no assurances, however, that in the future the issues raised in these cases will not be addressed by a court in the Ninth Circuit (with jurisdiction over the City) or by the U.S. Supreme Court.

In the State of Washington, cities are explicitly authorized by state law to operate solid waste collection services with their own personnel or to contract with the private sector to do so. Alternatively, cities may rely upon state-regulated private haulers to collect waste, subject to additional city regulation.

Under Seattle's current and pending residential garbage collection contracts, the City's solid waste is required to be brought to City-owned and -operated transfer stations and then delivered to the City's designated receiving facility for disposal. Pursuant to City ordinance, waste that is self-hauled by members of the general public and small businesses must be delivered to a transfer station within the City. Similarly, nonrecyclable commercial waste (which is collected by two state-regulated companies that are not under contract with the City) is directed by ordinance to the City's designated receiving facility. The City is in the process of negotiating collection contracts with these two commercial haulers, and would designate the receiving facility for disposal in such contracts. There is no guarantee, however, that the negotiations will result in the execution of contracts with these particular haulers. The City retains the authority to pursue contracts for commercial waste collection with other parties, although the existing haulers might attempt to argue that a seven-year notification period must precede any change.

The City believes that, in light of the *Smithtown*, *Babylon*, *Tinnerello*, and *Houlton* decisions, a court should uphold the City's authority to contract with collectors of residential and nonrecyclable commercial waste and to designate disposal sites in such contracts. Based on the *Babylon*, *Tinnerello* and *Houlton* decisions, the City expects to be able to prohibit noncontracted haulers from collecting nonrecyclable waste within the City. However, the City recognizes that its ordinance directing commercial or self-hauled waste to designated facilities would, if challenged, more likely than not be found invalid under the precedent of *Carbone*.

Revenues

There are four primary sources of solid waste revenues: (i) residential collection charges, (ii) self-haul fees, (iii) commercial disposal charges, and (iv) taxes.

Residential Collection Charges. Residential households in Seattle are charged directly by the City for solid waste services. This charge is part of a combined utility bill that also includes payment for water and wastewater services. In 1998, residential collection charges generated approximately \$48.2 million, or 59 percent of total solid waste revenue.

Self-Haul Fees. The City's two public transfer stations accept garbage, yard waste, wood waste, and source-separated recyclable material from the general public and small businesses. Self-haul customers are assessed fees based on the type of waste, type of vehicle and/or weight of the load. See "Solid Waste Operations—Transfer." These self-haul fees generated approximately \$8.0 million, or ten percent of total solid waste revenues, in 1998. The following tables show the regular transfer station fees for garbage and yard waste customers as well as the largest transfer station credit customers in terms of revenue. The 12 largest customers account for 1.19 percent of total revenue.

1999 Transfer Station Fees

Garbage

Sedans, SUVs and Station Wagons	\$13.00/trip
All Other Self-Haul Vehicles with Garbage	\$93.65/ton, \$13.00 minimum charge

Yard Waste

Sedans, SUVs and Station Wagons	\$10.75/trip
All Other Self-Haul Vehicles with Yard Waste	\$68.70/ton, \$10.75 minimum charge

1998 Largest Transfer Station Credit Customers

Customer Name	Tons	Revenue	Percent of Total Revenue
Seattle Parks Department	1,787	\$ 167,525	0.20
Salvation Army	3,145	146,982	0.18
Goodwill Industries	2,411	112,696	0.14
University of Washington	1,115	104,386	0.13
King County Housing Authority	1,106	103,613	0.13
Seattle Emerald City Disposal	902	84,509	0.10
Mehrer Drywall, Inc.	688	64,465	0.08
Schultz Miller, Inc.	533	49,962	0.06
St. Vincent de Paul	967	45,591	0.06
McBride Construction Resources	379	35,576	0.04
Seattle Transportation	358	33,557	0.04
Dow Construction	351	32,961	0.04
Total	13,742	\$ 981,823	1.19

Commercial Disposal Charges. Waste delivered to the Argo railyard from the private transfer stations is assessed a \$62.20 per ton tipping fee by the City. This tipping fee generated approximately \$13.2 million, or 16 percent of the 1998 solid waste revenue.

Taxes. The remaining significant source of solid waste revenues comes from three taxes levied by the City on nonrecycled waste collected in the City and nonrecycled waste transferred for disposal in the City. The revenue from these taxes, which supports landfill closure, low income rate assistance, litter control, and solid waste system planning costs, was \$11.9 million in 1998, or 15 percent of total solid waste revenue. A collection tax of \$11.70 per ton is levied on all in-City generated nonrecycled waste collected in the City. This tax is levied on both the City (as the collector of residential solid waste) and on the WUTC-franchised

collectors of commercial waste. A tax of \$8.80 per ton is levied on all in-City generated nonrecycled waste transferred for disposal in the City. This tax is levied at the City's two public transfer stations and the two private transfer stations in Seattle. A tax of \$4.40 per ton is levied on all out-of-City generated nonrecycled waste transferred for disposal in the City. This tax mainly impacts the portion of the region's waste stream that flows through Seattle's two private transfer stations.

Rates

Establishment of Rates. Residential solid waste rates are proposed by the Mayor, reviewed by the Council and adopted by the Mayor and Council after public hearings. The City is not subject to the rate-making jurisdiction of the WUTC or any other State or federal agency.

Initiative 695. The Secretary of State has certified Washington State Initiative Measure No. 695 ("I-695") to be placed on the November 2, 1999, general election ballot. Among other things, I-695 would require voter approval for any increase in taxes, impact fees, permit fees, or any "monetary charge" imposed by the State or local governments, including the City. It cannot be predicted whether I-695 will be approved by the voters, nor can the extent of the measure's impacts on the City be estimated. If approved by the State's voters, many aspects of I-695 may be subject to interpretation by the courts, including the meaning of the term "monetary charge," which may include utility rates. If I-695 is approved and is determined to apply to utility rates, the projected rate increases and projected operating results of the Solid Waste System might change. The stated effective date of I-695 is January 1, 2000.

Current Rates. Although all Seattle residents are required by City ordinance to subscribe to garbage collection service, subscribers can choose the level of service. Residential customers pay for solid waste services based on the size of the garbage can they choose and charges increase with the size of the can. This rate structure encourages customers to recycle and minimize the amount of garbage collected. Solid waste rates have increased twice in the 1990s—by an average of 14.3 percent in July 1992 and by 7.3 percent in September 1994. An average rate increase of approximately three percent is assumed for 2000. See "Projected Operating Results" and "Initiative 695."

The following tables show a comparison of monthly rates for various levels of service and the number of customers subscribing to each level of service.

1999 Monthly Rate Schedule

<u>Service Units</u>	<u>Rate (1)</u>
No Can (minimum rate)	\$ 6.25
Micro-Can (2)	10.05
Mini-Can	12.35
One Can	16.10
Two Cans	32.15
Three Cans	48.25
Additional Cans (per can rate)	16.10
Non-Compacted Dumpster (one cubic yard, once/week, one container) (3)	82.50
Compacted Dumpster (three cubic yards, once/week, one container) (3)	310.90
Yard Waste Collection	4.25

- (1) Rates listed are for curb/alley service. Backyard service rates are approximately 40 percent higher. Backyard service is not available for the micro-can, mini-can and yard waste services. The micro-, mini-, one and two can rates per household unit in a multi-family dwelling are \$0.30 less. The three-can rate is \$0.35 less per household unit.
- (2) There is a \$6.00 fee for the purchase of the micro-can.
- (3) Dumpster rates vary with size and number of containers as well as frequency of collection.

Number of Customers by Class

	1994	1995	1996	1997	1998
Variable Can Premises					
No Can	2,183	2,277	2,055	1,953	1,946
Micro-Can	6,153	6,121	6,127	5,979	5,850
Mini-Can	40,055	39,406	39,741	39,823	39,558
One Can	93,536	94,080	94,790	95,389	96,010
Two or More Cans	10,536	11,072	10,791	10,917	11,075
Total Variable Can Premises	152,463	152,956	153,504	154,061	154,439
Dumpster Premises	94,857	95,515	97,176	100,877	101,738
Dumpster Accounts	5,329	5,361	5,380	5,409	5,399
Active Transfer Station Credit Accounts	396	365	365	379	375

Billing. SPU bills residential solid waste services through the Combined Utility Billing System (“CUBS”), which is Year 2000 compliant. CUBS itemizes amounts due for water, wastewater and solid waste services, and residential customers make a single payment for those services. Payments received from the combined utility bills are transferred to the appropriate funds. If a payment received from a customer is insufficient to cover the total amount due and payable, the payment is credited first to the Solid Waste System. The balance of the payment is credited to the Drainage and Wastewater Fund and then, if available, to the Water Fund. If an account is 33 days past due, the customer receives a water shut-off notice. By State law, SPU has the authority to shut off water when an account is delinquent. City ordinance further provides that, in accordance with RCW 35.21.130, overdue solid waste accounts become a lien on property if not paid within 90 days and delinquent charges bear interest at the rate of 12 percent per annum.

Customers who self-haul garbage, yard waste and wood waste to the City’s two transfer stations in cars and trucks either pay with cash or by credit card at the time they deliver their waste, or are billed directly by SPU on a monthly basis. If a credit customer fails to pay its bill on a timely basis, SPU terminates that customer’s line of credit at the City-owned transfer stations, sends repeated notices to the customer reminding the party of its obligation and, if these measures fail to produce payment, transmits the matter to the City’s Law Department for collection.

Solid Waste Comprehensive Plan

In the spring of 1998, SPU completed a revision of its Solid Waste Comprehensive Plan (the “Plan”), which outlines alternative strategies for managing the City’s solid waste programs and collection and transfer systems over the next 20 years. The Plan includes a set of solid waste goals for the next six to ten years for the City, including (i) continuing to promote and encourage waste reduction and its long-term benefits, (ii) continuously improving recycling programs and (iii) maximizing the efficiency and cost-effectiveness of collection and transfer services. The Council approved the revised plan in August 1998.

Future Capital Improvements

The Solid Waste Fund’s 1999-2004 Capital Improvement Program (the “CIP”) includes station improvements and several large technology projects. The station improvements consist of seismic upgrades, a new recycling center and a maintenance facility. The total cost of the six-year CIP is \$15.5 million; details of the six-year CIP are shown below.

**Solid Waste System
1999-2004 Capital Improvement Program**

	1999	2000	2001	2002	2003	2004	Total
Hazardous Waste Facilities Projects	\$ 85,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 85,000
Landfill Projects	423,000	12,000	-	-	-	-	435,000
Station Improvements	28,000	140,000	831,000	465,000	2,277,000	125,000	3,866,000
Station Rehabilitation	1,388,000	1,197,000	1,038,000	177,000	771,000	455,000	5,026,000
Technology Projects	<u>2,583,000</u>	<u>2,900,000</u>	<u>561,000</u>	<u>23,000</u>	<u>-</u>	<u>-</u>	<u>6,067,000</u>
Total	\$ 4,507,000	\$ 4,249,000	\$ 2,430,000	\$ 665,000	\$ 3,048,000	\$ 580,000	\$ 15,479,000

Historical Operating Results

The historical operating results for the Solid Waste System are summarized in the table titled “Historical Operating Results.” In 1990, the City withdrew from the King County solid waste disposal system and received a cash refund of approximately \$10 million. Having this amount plus other accumulated cash balances on hand in the Solid Waste System, the City chose to operate the Solid Waste System at a loss (including depreciation and amortization as expenses) from 1990 through 1996. Each year since 1992 the loss has been smaller, and in 1997 and 1998 the Solid Waste System reported positive net income. In 1993 debt service coverage was 1.35, which equals the Coverage Requirement. As planned, withdrawals were made from the Rate Stabilization Account in 1993 to meet this coverage requirement. Since 1993, the Solid Waste System's debt service coverage has exceeded its policy target of 1.5.

Projected Operating Results

The table titled “Projected Operating Results” shows the projected revenues and expenses for 1999 through 2004. The Solid Waste System's financial planning is built around financial guidelines relating to net income, debt service coverage and cash balances. Consistent with those guidelines, projected financial performance shows positive net income and debt service coverage greater than the policy target of 1.5. Projected results assume a modest rate increase, as described in “Current Rates.” SPU believes the assumptions regarding revenues and expenses of the Solid Waste System shown in the “Projected Operating Results” table are reasonable; however, there usually will be differences between projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. See “Rates—Initiative 695.”

Solid Waste System Historical Operating Results

	1993	1994	1995	1996 (1)	1997	1998
OPERATING REVENUES:						
Residential collection services	\$ 41,173,994	\$ 43,318,625	\$ 46,356,149	\$ 47,685,196	\$ 47,476,156	\$ 48,187,601
Disposal and other	<u>25,009,794</u>	<u>26,731,512</u>	<u>29,714,369</u>	<u>29,664,427</u>	<u>32,937,524</u>	<u>33,263,784</u>
Total Operating Revenues	\$ 66,183,788	\$ 70,050,137	\$ 76,070,518	\$ 77,349,623	\$ 80,413,680	\$ 81,451,385
OPERATING EXPENSES:						
Contracted services for solid waste collection and other collection expenses	\$ 9,695,726	\$ 10,892,871	\$ 12,017,403	\$ 12,299,340	\$ 12,788,440	\$ 13,279,293
Transfer stations, hauling and disposal site operations	25,768,513	25,654,065	24,145,473	23,540,675	24,097,936	23,903,345
Waste reduction/recycling	11,145,153	10,638,774	9,511,473	11,465,284	11,945,564	12,231,804
Household hazardous waste	1,285,655	1,272,388	1,249,415	1,059,158	1,211,087	1,170,723
Litter control	2,376,140	2,365,658	2,088,090	2,575,939	2,559,441	2,343,866
General and administrative	4,650,514	4,401,444	3,888,524	4,338,238	4,584,975	6,042,352
Customer billing and collection	4,457,790	3,531,765	3,824,807	4,036,865	3,665,963	3,762,126
Taxes, including City occupation	8,636,135	9,754,932	12,572,700	11,302,696	11,743,052	11,757,710
Depreciation and amortization	<u>4,809,140</u>	<u>4,838,940</u>	<u>5,399,436</u>	<u>5,239,296</u>	<u>4,926,502</u>	<u>4,633,648</u>
Total Operating Expenses	\$ 72,824,766	\$ 73,350,837	\$ 74,697,321	\$ 75,857,491	\$ 77,522,960	\$ 79,124,867
Net Operating Revenues	\$ (6,640,978)	\$ (3,300,700)	\$ 1,373,197	\$ 1,492,132	\$ 2,890,720	\$ 2,326,518
OTHER REVENUES (EXPENSES):						
Operating grants and interest income	\$ 1,615,684	\$ 534,644	\$ 720,901	\$ 453,781	\$ 566,088	\$ 850,030
Interest expense and amortization	(3,640,303)	(3,522,709)	(3,393,944)	(3,279,322)	(3,101,324)	(2,948,458)
Other	<u>135,183</u>	<u>(71,028)</u>	<u>(652,804)</u>	<u>(1,902)</u>	<u>22,725</u>	<u>488,011</u>
Total Other Revenues (Expenses)	\$ (1,889,436)	\$ (3,059,093)	\$ (3,325,847)	\$ (2,827,443)	\$ (2,512,511)	\$ (1,610,417)
NET INCOME (LOSS)	\$ (8,530,414)	\$ (6,359,793)	\$ (1,952,650)	\$ (1,335,311)	\$ 378,209	\$ 716,101
Depreciation/amortization	\$ 4,809,140	\$ 4,838,940	\$ 5,399,436	\$ 5,239,296	\$ 4,926,502	\$ 4,633,648
City taxes	5,841,411	6,654,661	9,219,554	9,015,749	9,328,203	9,406,121
Interest expense and amortization	<u>3,640,303</u>	<u>3,522,709</u>	<u>3,393,944</u>	<u>3,279,322</u>	<u>3,101,324</u>	<u>2,948,458</u>
Balance available for coverage	\$ 5,760,440	\$ 8,656,517	\$ 16,060,284	\$ 16,199,056	\$ 17,734,238	\$ 17,704,328
Transfer from Rate Stabilization Account	<u>1,260,070</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Adjusted Net Revenue (2)	\$ 7,020,510	\$ 8,656,517	\$ 16,060,284	\$ 16,199,056	\$ 17,734,238	\$ 17,704,328
Annual Debt Service	\$ 5,200,376	\$ 5,200,051	\$ 5,200,791	\$ 5,196,969	\$ 5,197,773	\$ 5,199,254
Debt Service Coverage	1.35	1.66	3.09	3.12	3.41	3.41

(1) 1996 figures include implementation of GASB 31.

(2) Adjusted net revenue = net income + interest expense + depreciation + City taxes + transfer from Rate Stabilization Account.

Solid Waste System Projected Operating Results (1)

	1999	2000	2001	2002	2003	2004
OPERATING REVENUES:						
Residential collection services	\$ 48,263,832	\$ 50,126,261	\$ 50,832,644	\$ 51,191,590	\$ 51,554,523	\$ 51,921,194
Disposal and other	35,903,030	35,951,552	36,036,244	36,223,391	36,530,461	37,090,764
Total Operating Revenues	\$ 84,166,862	\$ 86,077,812	\$ 86,868,888	\$ 87,414,982	\$ 88,084,985	\$ 89,011,958
OPERATING EXPENSES:						
Contracted services for solid waste collection and other collection expenses	\$ 13,844,962	\$ 13,250,939	\$ 12,758,356	\$ 12,971,860	\$ 13,196,744	\$ 13,426,144
Transfer stations, hauling and disposal site operations	25,522,700	25,905,891	26,591,584	26,536,366	27,016,350	27,782,231
Waste reduction/recycling	12,883,232	12,930,917	12,921,661	13,129,507	13,348,845	13,572,197
Household hazardous waste	1,258,546	1,194,145	1,221,931	1,251,588	1,283,217	1,315,647
Litter control	2,650,000	2,671,573	2,733,019	2,798,611	2,868,577	2,940,291
General and administrative	7,222,087	6,717,112	6,677,236	6,837,489	7,008,426	7,183,637
Customer billing and collection	3,600,000	3,596,109	3,686,124	3,782,101	3,884,381	3,989,443
Taxes, including City occupation	12,353,842	11,353,173	11,427,554	11,513,051	11,608,682	11,705,452
Depreciation and amortization	5,326,636	5,847,030	5,989,127	5,679,505	5,667,791	5,806,146
Total Operating Expenses	\$ 84,662,005	\$ 83,466,889	\$ 84,006,592	\$ 84,500,078	\$ 85,883,014	\$ 87,721,189
Net Operating Revenues	\$ (495,142)	\$ 2,610,924	\$ 2,862,295	\$ 2,914,904	\$ 2,201,971	\$ 1,290,769
OTHER REVENUES (EXPENSES):						
Operating grants and interest income	\$ 840,060	\$ 695,354	\$ 581,642	\$ 565,755	\$ 526,465	\$ 442,972
Interest expense and amortization	(1,197,350)	(2,393,678)	(2,224,288)	(2,063,228)	(1,886,131)	(1,699,478)
Other	1,300,000	1,000	1,000	1,000	1,000	1,000
Total Other Revenues (Expenses)	\$ 942,710	\$ (1,697,324)	\$ (1,641,646)	\$ (1,496,473)	\$ (1,358,666)	\$ (1,255,506)
NET INCOME (LOSS)	\$ 447,567	\$ 913,600	\$ 1,220,649	\$ 1,418,430	\$ 843,305	\$ 35,262
Depreciation/amortization	\$ 5,326,636	\$ 5,847,030	\$ 5,989,127	\$ 5,679,505	\$ 5,667,791	\$ 5,806,146
City taxes	9,828,836	8,770,839	8,821,488	8,890,602	8,966,132	9,042,593
Interest expense and amortization	1,197,350	2,393,678	2,224,288	2,063,228	1,886,131	1,699,478
Adjusted Net Revenue (2)	\$ 16,800,389	\$ 17,925,147	\$ 18,255,552	\$ 18,051,765	\$ 17,363,359	\$ 16,583,480
Annual Debt Service	\$ 4,904,350	\$ 5,360,678	\$ 5,346,288	\$ 5,340,228	\$ 5,343,131	\$ 5,341,478
Debt Service Coverage	3.43	3.34	3.41	3.38	3.25	3.10

(1) Projected results assume rate increases described above in "Current Rates."

(2) Adjusted net revenue = net income + interest expense + depreciation + City taxes.

Potential Implications of Flow Control for the Solid Waste System

Despite changes in flow control law (see “Legal Developments”), the residential revenue base should remain stable over the term of the current and pending residential contracts because the flow of residential waste is controlled purely by contracts with residential haulers, and courts have upheld such contracts. Similarly, if the City enters into contracts with haulers of commercial waste that require delivery of waste to the Argo railyard, solid waste revenues from commercial disposal charges should be stable. Under such commercial collection contracts, the City also would fulfill the requirements of its disposal contract with Washington Waste. In the unlikely event that the City were unable to contract with the current commercial haulers or any other companies for collection of commercial waste, and if haulers discontinued delivery to the Argo railyard, the City could be held in violation of the disposal contract with Washington Waste and could be liable for significant damages.

The only solid waste revenues that are likely to depend on flow control ordinances of the type that were invalidated in *Carbone* are those generated by self-haul fees. However, these fees currently constitute only about ten percent of total revenues and, given disposal restrictions at transfer stations and landfills near the City, it is unlikely that significant numbers of self-haul customers actually would use alternate facilities.

The following table displays the fees at these nearby transfer stations as of January 1, 1999.

<u>Facility</u>	<u>Per Ton Tipping Fee</u>	<u>Sedans, SUVs and Station Wagons Fee</u>	<u>Comment</u>
City of Seattle Transfer Stations	\$93.65	\$ 13.00	
King County Transfer Stations	88.17	15.25	Currently do not accept waste from Seattle; flat rate is for sedans only.
Waste Management	83.38	N/A	
Rabanco	82.21	N/A	

The City of Seattle

The following provides general information about the City.

Municipal Government

Incorporated in 1869, the City of Seattle, Washington is the largest city in the Pacific Northwest and is the county seat of King County (the “County”). The City’s elected officials are a mayor, nine council members and a city attorney. These officials are elected at large to four-year terms. If an elected official were to resign from his or her position, that position would be filled by appointment by the Council and held by such appointee until filled by election. Martha Choe resigned as Council Member effective October 15, 1999. Her term will end on December 31, 1999, and the remainder of that term will be filled by appointment.

The City operates four utilities funded by rates and charges: electric, water, drainage and wastewater, and solid waste. See “Seattle Public Utilities.”

Financial Management

In 1992, the City’s financial management functions were consolidated as the Department of Finance, and a City Auditor was appointed for a six-year term. In 1997, the Departments of Finance, Personnel and Administrative Services were merged into the Executive Services Department (“ESD”). Financial management functions are performed within the Finance Division of ESD.

Dwight Dively is Director of ESD and of the Finance Division. Prior to the merger, Mr. Dively served as Director of the Department of Finance and, previously, as Policy Director for the Council. Mr. Dively is a

graduate of Rose-Hulman Institute of Technology, holds a master's degree from Princeton University in public affairs and is a Ph.C. in civil engineering at the University of Washington.

Accounting. The accounting and reporting policies of the City conform to generally accepted accounting principles for municipal governments and are regulated by the State Auditor's Office, Division of Municipal Corporations, which maintains a resident staff at the City to perform a continual current audit as well as the annual post-fiscal year audit of City financial operations. The Finance Division of ESD maintains general supervision over financial transactions of all City funds.

Auditing. The State Auditor is required to examine the affairs of all local governments at least once every three years; the City is audited annually. The examination must include, among other things, the financial condition and resources of the City, compliance with the laws and Constitution of the State, and the methods and accuracy of the accounts and reports of the City. Reports of the Auditor's examinations are required to be filed in the office of the State Auditor and in the Finance Division of ESD. The City's Comprehensive Annual Financial Report may be obtained from ESD by calling (206) 684-8300.

Municipal Budget. City operations are guided by a budget prepared under the direction of the Mayor by the City Budget Division of ESD pursuant to State statute (Chapter 35.32A RCW). The proposed budget is submitted to the Council by the Mayor each year not later than 90 days prior to the beginning of the next fiscal year. Currently the fiscal year of the City is from January 1 through December 31. The Council considers the proposed budget, holds public hearings on its contents and may alter and revise the budget at its discretion, subject to the State requirement that budgeted revenues must at least equal expenditures. The Council is required to adopt the budget at least 30 days before the beginning of the next fiscal year.

***Investments.* The information in this section does not pertain to pension funds, which are administered by the Seattle City Employees' Retirement System, and some debt issuance proceeds, administered, in some cases, by trustee service providers.**

All cash-related transactions for the City, including its utilities, are administered by the treasury unit of ESD (the "Treasury Division"). City cash is deposited into a single bank account and cash expenditures are paid from a consolidated disbursement account. Investments of temporarily idle cash may be made, according to existing Council-approved policies, by the Treasury Division in the following securities:

- (i) U.S. Treasury and agency issues;
- (ii) bankers' acceptances sold on the secondary market;
- (iii) repurchase and reverse repurchase agreements, when structured with securities eligible for purchase and when executed under an approved master repurchase agreement with selected primary dealers; and
- (iv) commercial paper purchased in the secondary market which has received the highest ratings of at least two nationally recognized rating agencies.

State statutes, City ordinances and ESD policies require the City to minimize market risks by safekeeping all purchased securities according to governmental standards for public institutions and by maintaining safety and liquidity above consideration for returns. Current City investment policies provide for quarterly and annual reports of the City's investment portfolio to the Finance Director, the Mayor and the Council. City investment policy is reviewed on an annual basis and any significant revisions are acknowledged by the Council. The City's investment operations are reviewed by the City Auditor and by the State Examiner.

As of July 31, 1999, the combined investment portfolios of the City totaled \$523.4 million at book value. The City's investment pool is constituted solely of City funds. The City does not invest any of its funds in other pools, with the exception of tax collection receipts initially held by the County and funds of the Seattle City Employees' Retirement System and the Deferred Compensation Plan. As of July 31, 1999, the year-to-date yield on the City's consolidated pool investments, on a cash and accrual basis, was 5.8 percent and the average maturity date of the portfolio was December 2001. Approximately 18 percent, or \$95.9 million, was invested in securities with maturities of three months or less. The City held no securities with maturities longer than 15 years. Investments were allocated as follows:

U.S. Government and Agency securities	61.9%
Commercial paper	22.4
U.S. Treasury securities	10.1
Repurchase agreements	5.1
Mortgage-backed securities	1.5
Other	1.0
Reverse repurchase agreements	(1.9)

Risk Management

The City maintains \$25,000,000 liability insurance, with a \$2,500,000 self-insured retention for each occurrence. The City also maintains \$200,000,000 property insurance, with a \$100,000 deductible for each occurrence, on City-owned buildings with value greater than the deductible, unless insurance of at least equivalent value is provided by other parties. Workers compensation is insured to statutory limits, with a \$500,000 self-insured retention for each occurrence. In addition, insurance policies are purchased to cover loss of certain machinery and equipment.

Claims are paid, to the extent of the self-insured retention, from the Judgment and Claims Subfund, which is backed by the General Fund and the City's utility funds. As of December 31, 1998, the balance in the Judgment and Claims Subfund was \$6,025,273.

Pension System

Nearly all permanent non-uniformed City employees participate in the Seattle City Employees' Retirement System (the "Plan"), a single employer public employee retirement system. The payroll for City employees covered by the Plan for the year ended December 31, 1998, was \$341.5 million; total City payroll was \$541.2 million. Nearly all City employees are required to contribute 8.03 percent of their annual base salary to the Plan, and the City contributes an additional 8.03 percent. As of January 1, 1998, system assets exceeded the accrued actuarial liability, the actuarial present value of future benefits was \$1.593 billion, the actuarial present value of future normal costs for present members was \$433.5 million, and the actuarial value of assets available for benefits was \$1.225 billion. Combined employee and employer contributions to the Plan totaled approximately \$57.6 million for the year ending December 31, 1998.

Labor Relations

The City has 30 separate departments and offices with approximately 13,000 regular and temporary employees. Thirty different unions and 45 bargaining units represent approximately 75 percent of the City's regular employees. In the fall of 1998, the City completed negotiations with unions representing firefighters, Police Department management and the majority of the City's general workforce. These contracts extend through the end of 2000 or 2001, depending on the union involved. The City currently is negotiating with the Police Guild and two small bargaining units.

Year 2000

Many existing computer programs use only the last two digits to refer to a year. These programs may not recognize properly that certain years begin with "20" instead of "19". If not corrected, such programs could fail or create erroneous results when attempting to recognize dates after December 31, 1999.

The City is committed to ensuring that essential services will be supported beyond the year 2000, and has made the Year 2000 issue the top priority on the City's information technology agenda. The City has

implemented a unified Year 2000 Program to coordinate the inventorying, prioritizing, assessing, resolving, testing, and contingency planning activities that have been initiated to address all major Year 2000 issues affecting City departments. In July 1999, the City replaced its old financial management system, which was not Year 2000-compliant, with a new system that accounts for all City fund disbursements and receipts and provides financial reporting information.

In addition, the City's ESD staff is contacting all City vendors to determine if they are Year 2000-compliant. Each department then will take responsibility for reviewing the contracts of non-compliant vendors and making any necessary alternative arrangements to acquire the goods and services needed.

Based solely on the assessments completed to date, the City does not believe that the Year 2000 issue will result in a material adverse change in its business condition or in its ability to satisfy principal and interest payment requirements on its bonds. However, the Year 2000 issue is a worldwide problem. The City can make no assurances regarding the Year 2000 compliance status of systems and parties outside the City's control, and the City cannot assess the potential effects of those systems' and parties' compliance on its financial position, results of operations and cash flows.

Demographic and Economic Information

King County together with Snohomish and Island Counties to the north constitute the Seattle-Bellevue-Everett Primary Metropolitan Statistical Area (the "Seattle PMSA"), which is the fourth-largest metropolitan center on the West Coast. The City of Seattle, encompassing 92 square miles, is the largest city in the Pacific Northwest and is the center of the County's economic activity. Of the State's population, nearly 30 percent reside in King County, and of the County's population, 33 percent live in the City.

In addition to Seattle, some of the principal cities in the Seattle PMSA include Bellevue, Federal Way, Kent, Redmond, and Shoreline in King County, and Everett and Lynnwood in Snohomish County. The City of Bothell spans both King and Snohomish Counties.

Population

The population trends of King County and the Seattle PMSA show continued growth at a rate higher than the City's, which reflects the greater availability of residential construction sites outside Seattle. The 1990 U.S. Census population and recent population estimates for the City, King County and the Seattle PMSA are as follows:

Year	Seattle	King County	Seattle PMSA
1998	539,700	1,665,800	2,306,400
1997	536,600	1,646,200	2,269,000
1996	534,700	1,628,800	2,237,200
1995	532,900	1,613,600	2,208,100
1994	531,400	1,599,500	2,183,900
1990*	516,259	1,507,319	1,972,961

* Source: U.S. Census

Source: Washington State Office of Financial Management, Forecasting Division

Per Capita Income

The following table presents per capita personal income (presented in 1996 dollars). The Seattle PMSA's per capita income has been consistently higher than the State's, and from 1993 through 1996 the rate of growth in the Seattle PMSA's per capita income outpaced the State's growth rate.

	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>
Seattle PMSA	\$31,372	\$29,494	\$27,736	\$26,690	\$26,031
King County	34,440	32,205	30,054	28,855	28,102
State of Washington	25,277	23,974	22,806	22,168	21,515

Source: U.S. Bureau of Economic Analysis, U.S. Department of Commerce

Building Permit Value

The table below lists the value of construction for which building permits have been issued by the City of Seattle. The value of public construction is not included in this table.

Building Permits						
Year	Single Family/Duplex		Multifamily		Commercial	Additions and Other
	Units	Value	Units	Value	Value	Value
1998	792	\$ 104,653,000	2,777	\$ 227,014,000	\$ 377,366,000	\$ 439,806,000
1997	616	81,395,000	2,587	164,356,361	402,989,283	359,207,404
1996	534	68,875,607	2,172	180,328,584	119,856,907	295,180,203
1995	551	70,038,219	1,016	90,886,112	111,474,377	288,613,031
1994	484	54,250,837	1,104	83,972,549	224,872,867	254,522,561
1993	451	59,727,463	1,465	100,661,099	177,184,108	213,832,029

Source: City of Seattle Department of Construction and Land Use

Office Space Activity

According to the CB Commercial Real Estate Group, Seattle's central business district ("CBD") has over 26 million square feet of office space. The County's suburban communities have approximately 21 million square feet of office space for a greater Seattle total of 47 million square feet of office space. In 1989, voters approved a Citizens Alternative Plan ("CAP") initiative. Under the restrictions of CAP, construction in the Seattle CBD is limited to one million square feet per year from 1994 to 1999. CAP also places height and density restrictions on development throughout the Seattle CBD.

Commercial real estate vacancy rates in downtown Seattle at the end of 1998 were 5.3 percent, compared to about 5.0 percent at the beginning of the year. Almost a million square feet of new office space is under construction, with another five million square feet proposed for new construction. Office space in the CBD is renting for up to \$40 per square foot in 1999, compared to a high of \$30 per square foot in 1998.

Industry and Employment

The employment base of the Seattle PMSA is diversified, with strengths in the manufacturing, trade, services, and government sectors. In 1998, manufacturing comprised about 17 percent of the area's nonagricultural employment, approximately the same as 1997, with aircraft production comprising about eight percent of the total employment. In the non-manufacturing sectors, services was the largest sector with almost 29 percent of total employment; wholesale and retail trade comprised about 23 percent; and government, including education, comprised about 13 percent. The preliminary unemployment rate in the Seattle PMSA for 1998 was 3.1 percent, compared to 5.3 percent for the State as a whole.

The table below shows employment by sector and unemployment for the Seattle PMSA.

**Seattle-Bellevue-Everett PMSA
(King, Snohomish and Island Counties)
Civilian Labor Force and Nonagricultural Employment**

	Average Annual (1)				
	1994	1995	1996	1997	1998 (2)
Civilian Labor Force					
Employment	1,131,800	1,171,200	1,207,100	1,297,500	1,338,900
Unemployment	68,300	65,700	63,300	44,800	42,700
Total Civilian Labor Force	1,200,100	1,236,900	1,270,400	1,342,300	1,381,600
Unemployment Rate	5.7%	5.3%	5.0%	3.3%	3.1%
Nonagricultural Employment					
Manufacturing					
Aircraft and parts	89,300	77,800	83,500	101,100	107,900
Miscellaneous transportation equipment	8,200	9,100	8,500	8,800	9,200
Food products	15,700	16,600	17,300	17,000	15,700
Wood products and paper	12,800	12,600	12,600	12,400	12,200
Machinery and electrical	15,300	16,800	18,600	20,700	22,300
Instruments	10,600	10,500	10,900	11,800	12,200
Textiles, apparel and leather	4,600	4,700	4,700	5,100	5,000
Printing and publishing	13,900	13,900	14,300	14,100	14,000
Other manufacturing categories	25,300	25,900	26,500	27,800	29,900
Total manufacturing	195,700	187,900	196,900	218,800	228,400
Nonmanufacturing					
Contract construction	57,800	58,400	61,200	66,500	72,200
Transportation, communication and utilities	70,100	72,300	74,600	77,700	80,300
Wholesale and retail trade	277,800	287,800	294,600	304,000	316,600
Finance, insurance and real estate	75,700	73,500	74,900	76,700	81,200
Services	311,800	327,500	347,600	371,400	389,400
Government	168,700	172,000	175,100	178,100	182,400
Total nonmanufacturing	961,900	991,500	1,028,000	1,074,400	1,122,100
Total Nonagricultural Employment	1,158,300	1,180,000	1,225,500	1,293,900	1,351,100

(1) Columns may not add to totals due to rounding anomalies in the way average annual is calculated.

(2) Preliminary.

Source: Washington State Department of Employment Security

The following table presents employment data for major employers in the Puget Sound area, which is defined for the purposes of this section as King, Kitsap, Pierce, San Juan, Skagit, Snohomish, Thurston, and Whatcom Counties, Washington.

Puget Sound Area Major Employers	
<u>Employer</u>	<u>Number of Employees</u>
The Boeing Company	83,300
University of Washington	17,040
Microsoft	14,300
City of Seattle	13,000
Safeway	12,800
King County	12,000
Group Health Cooperative(1)	10,000
US Postal Service	9,700
Sisters of Providence Health	8,500
Fred Meyer (2)	6,300
US West Communications	6,200
Nordstrom	5,600
Quality Food Centers (2)	5,200
Alaska Air Group	4,900
Seattle School District No. 1	4,700
Costco Wholesale	4,600
Weyerhaeuser	4,500
The Bon Marche	4,500
Virginia Mason Medical Center (1)	4,400
Safeco	4,000
Paccar	3,900
Swedish Health Services	3,800
Target Stores	3,800
Albertson's	3,564
Sears Roebuck	2,700

(1) Group Health and Virginia Mason merged in 1996. The companies are coordinating functions, but still report separate employment figures.

(2) Fred Meyer acquired Quality Food Centers in January 1998, and then was acquired by Kroger in November 1998.

Sources: Puget Sound Business Journal, Book of Lists, 1999, and Individual Employers, January 1999.

Boeing remains the largest employer and aerospace continues to be an important part of the local economy. However, aerospace's impact has diminished in recent years with the growth experienced in other industries such as high technology.

Aerospace. The Boeing Company ("Boeing") is the world's largest manufacturer of commercial jetliners and military aircraft, and is the nation's largest NASA contractor, with customers in 145 countries, employees in more than 60 countries and operations in 27 states. Company revenues were \$22.7 billion in 1996, \$45.8 billion in 1997 and \$56.2 billion in 1998.

Since autumn of 1997, Boeing has been in the midst of a production rate buildup for its 7-series commercial aircraft and has experienced raw materials and parts shortages and productivity inefficiencies caused by adding thousands of new employees. A total of 375 commercial aircraft was delivered in 1997. In 1998 Boeing delivered a total of 563 commercial jetliners, exceeding the company's goal of 550 deliveries for the year. Boeing plans to deliver 620 jetliners in 1999 and 480 in 2000.

In December 1997, Boeing announced plans to reduce its workforce within its commercial airplane operations by 12,000 employees, mostly in Washington, through a combination of attrition and layoffs. In July 1998, the company announced that those job cuts would be delayed at least until the end of the year, to allow more time to streamline and accelerate the backlogged production process. As of September 1, 1999, Boeing had

203,800 employees nationwide, of which 83,300 work throughout the Puget Sound region at sites in Seattle, Bellevue, Everett, Renton, Kent, and Auburn. Between June 1998 and September 1999, a total of 18,600 jobs had been cut by Boeing. By the end of 2000, Boeing expects nationwide employment to drop by another 24,000 to 33,000 workers, as a result of anticipated decreases in the production rates of several aircraft lines attributed to the weakened Asian economy. In September 1999, Boeing finalized a three-year contract with its largest union, the International Association of Machinists and Aerospace Workers, which represents more than 44,000 hourly workers at Boeing facilities in Washington, Kansas and Oregon.

Boeing acquired the aerospace and weapons divisions of California-based Rockwell International Corporation in 1996. Those divisions manufacture space shuttles, B-1 bombers, strategic nuclear missile components, rocket engines, and satellites. Boeing purchased McDonnell Douglas, its only U.S. commercial airplane rival and the world's largest builder of military aircraft, for approximately \$16.3 billion in 1997. Since the acquisition, Boeing has canceled long-term production of McDonnell Douglas airliners and has announced plans to reduce by half the workforce at its headquarters in Long Beach, California. Boeing's rolling ten-year projection calls for reducing the production of jumbo-jets and focusing on smaller, more efficient planes such as the 737 and 717 series.

Boeing had the following cumulative order and delivery schedule of its current 7-series commercial aircraft as of August 31, 1999:

<u>Aircraft Type</u>	<u>Firm Orders To Date</u>	<u>Total Deliveries To Date</u>
777	429	235
767	872	759
757	967	881
747	1,304	1,223
737	4,329	3,472
727	1,831	1,831
717	115	0
707	<u>1,010</u>	<u>1,010</u>
Totals	10,744	9,113

Source: The Boeing Company

Boeing's role as a supplier of space launch services, offering orbital launches and affiliated products such as rocket engines and satellites, is expected to provide an increasing percentage of its revenues in 1999. Revenues from space launches and space station activities are projected to reach \$4.3 billion in 1999 and \$5.2 billion in 2000, or 11 percent of commercial jet revenues.

Boeing has completed three major expansion projects in the past several years. In 1993, Boeing completed a \$400 million skin and spar plant and a composite manufacturing center on 500 acres in Puyallup (Pierce County). In 1995, a 5.6 million square-foot assembly plant for the 777 jetliner was built in Everett (Snohomish County). In October 1998, Boeing moved into new facilities in Renton that house the headquarters for the commercial airplane group.

Other aerospace companies in the Puget Sound area contribute to the local economy's strength, including BF Goodrich Aerospace (about 2,500 employees in the area), Hexcel Structures & Interiors (about 1,300 employees in the area), and Allied-Signal Inc. Electronic & Avionic Systems, Eldec Corp. and Esterline Technologies (each with about 1,000 employees in the area).

High Technology. The Puget Sound area has experienced substantial development in high technology, electronics and computer-related manufacturing enterprises, particularly over the last decade. Between 1990 and 1996, the number of software jobs in the State grew at the rate of 17.8 percent per year, almost double the nationwide rate of 9.2 percent per year, and the majority of that growth took place in the Puget Sound area. In 1988 there were 800 software companies in the State; by 1997, that number had grown to 2,500. In 1997, software was a \$15 billion industry that employed 27,000 people in the State.

Microsoft, which is headquartered in Redmond, is the region's largest high technology employer with over 27,000 employees worldwide, including more than 14,000 in the Puget Sound region. Microsoft is a developer and manufacturer of computer operating systems and software. The company also has an on-line service which includes several magazines and access to the Internet. Microsoft and NBC together own and operate a cable-television station, MSNBC. Microsoft's fiscal year 1998 revenues exceeded \$14 billion, a 28 percent increase over fiscal year 1997 revenues. The United States government has commenced federal anti-trust litigation against Microsoft. The consequences of this litigation cannot be determined at this time.

Ranked according to 1997 revenues, the top five software companies in the Puget Sound area were Microsoft, Attachmate (enterprise strength software), Sierra On-line (interactive consumer software), Wall Data (connectivity and application software), and WRQ Inc. (connectivity software). Internet commerce companies in the Puget Sound area, ranked according to 1997 revenues, include Amazon.com (electronic commerce), Microsoft's Expedia.com (consumer travel), Internet Entertainment Group (various online services), Egghead.com (computer hardware and software), and InfoSpace.com (directory and information services).

Other high tech industries contribute to the diversity of employment and production in the Puget Sound area. These include biotechnology (the top five firms ranked by number of employees in 1998 are Immunex Corp., ZymoGenetics Inc., Icos Corp., Cell Therapeutics Inc., and Sanofi Diagnostics Pasteur), computer dealers (the top five dealers ranked by 1997 sales are En Pointe Technologies, R&D Industries, Computers & Applications, Technology Integration Group, and Inacom Northwest) and medical device manufacturers (the top five firms based on number of employees in the area are ATL Ultrasound Inc., Spacelabs Medical Inc., Physio-Control Corp., Optiva Corp., and SeaMed Corp.).

The area's universities and research institutions have supported the expansion of high tech industries. Other key factors which support continued growth include (i) the existing industry base, (ii) a well trained labor force, (iii) relatively low cost power, (iv) a progressive business climate, and (v) excellent transportation access to worldwide markets.

Transportation

Seattle is the western terminus of two east-west freeway systems, Interstate Route 90 and State Route 520, and is traversed by north-south Interstate Route 5 and State Route 99. The section of I-90 that connects Seattle with Eastside communities across Lake Washington was expanded to eight lanes in the early 1990s. The Washington State Ferry System provides transportation between Seattle and points across Puget Sound to the west.

Regional Transit. In May 1996, the Central Puget Sound Regional Transit Authority ("Sound Transit") adopted a ten-year regional transit system plan called Sound Move. The plan incorporates a mixture of high-occupancy vehicle ("HOV") express lanes, regional express bus routes, commuter rail, and light rail. In November 1996, voters in the three counties affected by Sound Move (King, Snohomish and Pierce Counties) approved a 0.4 percent increase in local sales taxes and a 0.3 percent increase in the local motor vehicle excise tax to provide part of Sound Move's funding.

Sound Transit has a ten-year budget of approximately \$5.1 billion for the period 1997 through 2006. The program includes (i) 23 miles of new electric light rail connecting various neighborhoods between Seattle and the Seattle-Tacoma International Airport, as well as a separate line in Tacoma, (ii) 82 miles of commuter rail service along existing Burlington Northern Santa Fe railroad tracks between Everett, Seattle and Tacoma, (iii) more than 100 miles of HOV express lanes, (iv) 20 new regional express bus routes, and (v) region-wide coordination of schedules and fares among local and regional transit services.

In December 1998, Sound Transit released a draft environmental impact statement and preliminary route recommendations for the electric light rail system.

Airport Facilities. The Port of Seattle (the "Port") operates Seattle-Tacoma International Airport (the "Airport"), which is approximately ten miles south of the City in the city of SeaTac. The Airport is the 18th

busiest passenger airport and the 19th busiest cargo airport in the U.S. The Airport serves the air travel needs of a five-county area that includes King, Kitsap, Pierce, Snohomish, and Thurston Counties.

In 1998, the Airport had scheduled passenger service provided by 28 air carriers, including 15 major/national carriers, three commuter carriers and ten foreign flag carriers. In addition, 16 all-cargo carriers have scheduled cargo service at the Airport. The Airport has experienced positive passenger growth each year for the last 16 years, increasing to 25.9 million in 1998, a 4.7 percent increase over 1997. There were two million international travelers in 1998, an increase of 16.8 percent over 1997. For the first two months of 1999, the total number of passengers was up by 8.2 percent and cargo tonnage increased 10.2 percent over the same period in 1998.

Seattle-Tacoma International Airport Operations and Traffic					
	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Passengers					
Domestic	19,482,971	21,106,198	22,639,215	22,887,340	23,709,923
International	<u>1,489,848</u>	<u>1,667,788</u>	<u>1,685,381</u>	<u>1,842,773</u>	<u>2,153,209</u>
Total	<u>20,972,819</u>	<u>22,773,986</u>	<u>24,324,596</u>	<u>24,730,113</u>	<u>25,863,132</u>
Air Cargo (Metric Tons)					
Air Mail	90,109	98,519	102,241	112,639	133,413
Air Freight	<u>325,032</u>	<u>309,679</u>	<u>285,977</u>	<u>281,147</u>	<u>294,141</u>
Total	<u>415,141</u>	<u>408,198</u>	<u>388,218</u>	<u>393,786</u>	<u>428,272</u>
Operations (Flights)					
Air Carrier	212,016	226,190	239,063	235,447	221,705
Air Taxi	132,160	149,444	149,882	143,513	180,563
Military	371	567	87	93	110
General Aviation	8,358	10,244	6,077	6,180	5,183
Training	<u>147</u>	<u>91</u>	<u>107</u>	<u>65</u>	<u>15</u>
Total	<u>353,05</u>	<u>386,5362</u>	<u>395,216</u>	<u>385,298</u>	<u>407,576</u>

Source: *Port of Seattle*

The Puget Sound Regional Council (the "PSRC"), a planning council that reviews regional transportation issues to develop regional plans and to coordinate plans of local jurisdictions, includes representatives from King, Kitsap, Pierce, and Snohomish Counties. The Port and the PSRC co-sponsored a study of the future air service needs in the region, and recommended long-term solutions including the construction of a third runway at the Airport. The PSRC approved the project, so long as additional noise reduction measures are taken by the Port. There has been significant opposition to the third runway, primarily by communities adjacent to the Airport, and while the current development proposal includes provisions to address community concerns, it is possible that opposition to the expansion will persist. Construction of the third runway is projected to cost \$530 million, including environmental mitigation expenses. The Port expects to receive a \$161.5 million grant from the Federal Aviation Administration ("FAA") for construction costs; the current financing plan for the runway assumes that the remainder of the project will be funded with additional FAA grants, revenue bonds and Airport funds. Airport officials have projected that the third runway will be completed in 2004.

King County International Airport ("Boeing Field"), a general aviation facility operated by the County, is located in Seattle. With about 410,000 annual takeoffs and landings, Boeing Field is the busiest such facility in the region and ranks among the 15 busiest in the nation.

Marine Facilities. The Port's large and varied network of marine facilities at the Seattle harbor, Fishermen's Terminal and Shilshole Bay Marina serves as a focal point for shipping and waterborne commerce in the Pacific Northwest. The principal activity at the Seattle harbor is the transfer of international containerized cargo arriving by ship to various modes of land transportation destined for other regions of the country and the reverse transfer of domestic goods arriving by various land transportation modes to outbound ships. The

Port has 1.5 million square feet of warehouse storage space for handling cargo and hundreds of acres of outdoor storage. The Port owns 20 commercial marine terminals, including six container terminals on approximately 400 acres, with 22 container cranes serving 16 berths, an intermodal rail facility for cargo with inland destinations and a 150-acre breakbulk/neobulk complex, the largest state-of-the-art on-dock chill warehousing operation on the West Coast. Its grain terminal is an automated tidewater facility with a water depth at the berth that allows it to handle some of the world's largest grain ships.

The value of two-way trade at the Port of Seattle increased 6.0 percent in 1998, to \$79.8 billion. Over the next five years, the Port plans to spend \$400 million to upgrade its terminals, to accommodate future growth and offer more on-dock rail connections.

In mid-1998 a \$275 million project was completed at the Port's Terminal 5, one of the largest container-handling facilities on the West coast. The Port intends to expand another primary container terminal from 106 to 200 acres and add on-dock rail service for use by its largest tenant, Stevedoring Services of America. Property has been acquired for the \$300 million project; construction is expected to begin in 1999 and take two years to complete. The Port expects that the expansion will create 1,300 new stevedoring, pilotage, trucking, and other maritime-related jobs.

In February 1999, Far Eastern Steamship Company announced a decision to make the Port's Terminal 18 its Puget Sound shipping hub, and in March 1999, the first vessel arrived, offloading dimensional lumber from the Russian Far East and picking up modular housing units and mining equipment for the return trip. Also in March 1999, the first bulk fruit ship from Argentina arrived in Seattle, using the Port's new cold treatment inspection system. Before certification of the chill facility, perishable produce could be offloaded only at East coast ports.

The following table shows the amount of cargo that moved through the Port over the last five years. The Containers column gives the levels of cargo moved in containers, while the Metric Tons column shows the total amount of cargo moved, including non-containerized cargo such as grain and petroleum. Year-end 1998 figures show forest products exports declined 51 percent, overseas fruit sales fell 37 percent and fish exports decreased 15 percent.

**Port of Seattle
Cargo At Marine Terminals**

<u>Year</u>	<u>Metric Tons (000s)</u>	<u>Containers TEUs (1)</u>
1998 (2)	13,604	1,543,726
1997	16,407	1,475,813
1996	16,848	1,473,600
1995	18,763	1,479,100
1994	14,337	1,415,000

(1) Twenty-foot equivalent units.

(2) Estimated.

Source: Port of Seattle

The Port also owns and operates a 1,500-berth pleasure boat marina at Shilshole Bay on Puget Sound. The marina includes dry storage, a fuel dock, a boat and engine repair yard, marine supply stores, an administration building with restaurants, a yacht brokerage, and sailing instruction and charter service.

In 1996, the Marine Division of the Port opened the Bell Street Pier portion of the Central Waterfront Project, a mixed-use development along the downtown Seattle waterfront, with an international conference center, restaurants, a pleasure craft marina, and cruise ship berths. The Odyssey Maritime Discovery Center, a \$14 million marine museum, opened in July 1998. In January 1999, the Port announced plans to build a multi-purpose cruise terminal at the Bell Street Pier for approximately \$12.7 million, to be built in two phases. The first phase is expected to be completed before May 2000, when Norwegian Cruise Line is scheduled to begin using the facility as a home port for summer cruises to Alaska. The four-year agreement with the cruise

company is expected to generate \$74 million in business revenues and \$8.4 million in state and local taxes, and to create 400 new jobs.

In March 1999, the Maritime Industrial Center was opened at a former U.S. Coast Guard facility on the Ship Canal, near Fishermen's Terminal. The center was acquired and renovated by the Port for \$6.4 million, and provides facilities and services to support the region's fishing and maritime industries, including 52,800 square feet of warehouse space for light industrial use, a sheet metal manufacturer, fishing companies, and 1,325 linear feet of deep-water moorage space.

Fishing, Agriculture and Forest Products

Seattle is the home port of a major salmon and halibut fishing fleet. Approximately 700 commercial vessels are moored at the Port's Fishermen's Terminal on Salmon Bay, part of a fresh-water system of lakes and canals connected to Puget Sound. Fish received in Seattle are largely for fresh market distribution and for freeze processing. Seattle is also a warehousing and distribution center for fish processed elsewhere in the Northwest, principally in Alaska. While the fishing industry in Puget Sound has diminished in recent years, other segments of the fishing industry remain strong, including the "distant fleet", composed of trawlers, crab boats and halibut boats that fish in the waters off Alaska but are based in Seattle. In 1999, approximately 15 percent of the vessels moored at Fishermen's Terminal were non-commercial, including tug boats, tour boats and salvage vessels.

Agricultural activity in the County consists primarily of dairy farming, truck gardening, horticulture, and the raising of livestock and poultry. Seattle is a major center in the Northwest for agricultural supply, distribution and marketing as well as for food handling and processing and the manufacture of food packaging and containers.

The local forest products industry includes the manufacture of lumber, plywood, paper products, furniture, acoustical materials, and specialty wood products. Timber in the region is harvested under sustained-yield programs on federal, State and private timberlands. The region's leading forest products employer is the Weyerhaeuser Company, which operates lumber mills locally and has its corporate headquarters and a major research and development center in southern King County. Local employment and production levels within this industry have been and are expected to be further impacted by recent decisions by the federal government and the courts concerning the export of raw logs and restrictions on the harvesting of trees on federal lands in "old growth" forests. The extent of such impact is unknown at this time. The wood and paper products industry accounts for approximately one percent of the total Seattle PMSA employment.

Education

The University of Washington (the "University") is one of the oldest and largest state-assisted universities on the West Coast. Established in 1861, the University has 16 schools and colleges and approximately 17,000 employees, and offers instruction in more than 200 academic disciplines. Total undergraduate and graduate student enrollment at the Seattle campus was 35,108 in autumn 1998.

In 1990, the University opened two branch campuses to serve the growing population in the Puget Sound region. One campus is located in southeast Snohomish County in Bothell, with 1,213 students in autumn 1998, and the other is in Pierce County in Tacoma, serving 1,335 students in autumn 1998. The University currently is utilizing temporary facilities in both areas to provide its educational services. Construction of phase I of the Tacoma facilities was completed in 1997. Construction of a new 1,143,800 square-foot facility for the Bothell campus was authorized by the State Legislature and is expected to be completed in autumn 2000.

The University's 1999-2001 budget of \$700.9 million includes \$23 million to support investments in scientific, software and biotechnology research and \$255 million in capital improvements for a new law school building, library renovations and the next phases of construction at the Tacoma and Bothell campuses.

The University consistently ranks among the top five institutions of higher learning in the United States when measured by the receipt of federal grants. During the fiscal year ended June 30, 1998, the University received approximately \$557 million in grants, 76 percent of which was from federal sources. The largest share of this funding goes to the University's School of Medicine, which has been a leader in medical research for several decades.

Harborview Medical Center is the University's teaching hospital. Every physician practicing at Harborview is a member of the University of Washington School of Medicine faculty. This relationship has been essential to Harborview's development of a wide range of patient care services including burn, trauma, epilepsy, and spinal cord rehabilitation centers. A new 178,000 square-foot research and training facility is expected to be completed at Harborview in 1999.

Other higher education facilities in the City include two private four-year universities, Seattle Pacific University and Seattle University, several small colleges and three community colleges.

Seattle School District No. 1 is the largest school district in the State. It is made up of 66 elementary schools, ten middle schools, ten high schools, one special education school, and a number of alternative education schools. Total district enrollment was 47,609 students as of October 1, 1998.

Tourism, Recreation and Conventions

Bordered on the west by Puget Sound and on the east by the Cascade mountain range, the 2,128 square miles of King County include over 9,000 acres of park land and offer many types of outdoor recreation. The Seattle area has a variety of orchestras, theaters, opera companies, and resident dance groups. The Seattle Symphony's Benaroya Hall is an attraction for tourists and residents, along with Nordstrom's new flagship store and the high-end Pacific Place shopping and entertainment complex, all completed in the downtown area in 1998.

A new 45,600-seat stadium for the American Baseball League's Seattle Mariners opened in July 1999. Tax revenues are being used to pay for about \$372 million of the total costs of the project, originally projected at \$417 million and now estimated at \$525 million. Responsibility for payment of the cost overruns currently is in dispute.

In addition, a new stadium is planned which will be used primarily by the National Football League's Seattle Seahawks. In a statewide referendum in June 1997, voters approved the issuance of general obligation bonds by the State to pay for the construction of the stadium, parking facilities and an exhibition hall and the demolition of the Kingdome. The entire project is expected to cost \$425 million: \$300 million will be paid from various public sources including the State's general obligation bonds, and the remainder will be paid by the Seahawks' owner. Construction of the exhibition hall and parking facilities is expected to begin in November 1999. Construction of the main football stadium is expected to begin in April 2000, after the Seahawks' current home, the Kingdome, is demolished, and is scheduled to be completed in time for the 2002 football season.

Seattle Center, located one mile north of the central business district of Seattle, was the site for the 1962 World's Fair, and it continues to attract both residents and tourists. The 74-acre year-round convention and family entertainment center includes the Pacific Science Center, the Seattle Opera House, Memorial Stadium, the Space Needle, Key Arena, and a number of meeting and display rooms. The Key Arena serves as the home of Seattle's third major league sports team, the National Basketball Association's Seattle Supersonics. A major renovation of the Key Arena was completed in 1995. The Experience Music Project is under construction at Seattle Center and is expected to open by mid-2000.

The Washington State Convention and Trade Center opened in 1988 in downtown Seattle. The Center contains approximately one million gross square feet, including lobbies, retail and restaurant space, parking, and support space. Conventions are an economically important segment of the local tourism industry. The Seattle-King County Convention and Visitors Bureau booked 501 conventions in 1997, which drew an estimated 522,400 delegates. The estimated economic impact was \$291 million. The Third Ministerial

Conference of the World Trade Organization, with 134 member countries and 34 observer nations, is scheduled be held in Seattle in December 1999.

A planned expansion of the Center will double the exhibition space and add a private office tower. Site preparation began in January 1999 and construction began in May 1999. The total project is estimated to be completed by the summer of 2001 and to cost \$170 million, which includes land purchase, low-income housing construction and tenant relocation. Construction of additional retail, office and support space, as well as a hotel and a new site for the Museum of History and Industry, also is planned.

The number of conventions and events in the second quarter of 1998 was unchanged from the same time in 1997, but local room tax collections in the first quarter of 1998 were six percent higher than the first quarter of 1997.

Retail Activity

In 1997, the Seattle PMSA represented the 18th largest retail market in the United States, according to *Sales and Marketing Management's* "1997 Survey of Buying Power." The Seattle PMSA's rankings in some of the sales categories include 15th in apparel and accessories sales, 12th in building materials and hardware store sales, and 13th in total effective buying income.

In the first quarter of 1998, the region's durable goods purchases increased at an annual rate of 15 percent, driven by high-wage aerospace and software employment incomes. In the first six months of 1998, developers completed more than 400,000 square feet of new retail space, with another 1.6 million square feet planned. Most of this development is taking place in Seattle and Bellevue, in the form of mixed-use buildings.

The following table presents taxable retail sales in Seattle and King County. Taxable retail sales for the first six months of 1998 totaled \$5,386,579,735 for Seattle and \$14,737,565,908 for the County.

Taxable Retail Sales (000)		
<u>Year</u>	<u>The City of Seattle</u>	<u>King County</u>
1997	\$10,633,747	\$29,154,628
1996	9,635,640	26,402,602
1995	9,216,804	25,065,320
1994	8,956,433	23,786,571
1993	8,693,866	22,616,269
1992	8,563,528	21,934,019

Source: Washington State Department of Revenue

Endangered Species Listing

The National Marine Fisheries Service ("NMFS") recently added nine species of salmon and steelhead to the endangered species listing under the Endangered Species Act. The habitat of these fish is located in the urban areas of the Pacific Northwest, including the City and the County. NMFS is expected to release rules relating to the recovery of these species of fish during 1999. It is expected that additional funding will be needed to support projects to address fish and habitat restoration requirements associated with this listing. Funding for these programs is expected to come from a variety of sources, including City water rates, drainage rates, sewer rates, general fund moneys, taxes or fees imposed by other local jurisdictions, and federal and State grants. The listing could affect economic development in the area, but the potential impacts, if any, currently are unknown.

Legal and Tax Information

Litigation

There is no litigation pending with process properly served on the City questioning the validity of the Bonds or the power and authority of the City to issue the Bonds.

Approval of Counsel

Legal matters incident to the authorization, issuance and sale of the Bonds by the City are subject to the approving legal opinion of Foster Pepper & Shefelman PLLC, Bond Counsel. A form of the opinion of Bond Counsel with respect to the Bonds is attached hereto as Appendix B. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

Tax Exemption

Exclusion from Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance by the City with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

Continuing Requirements. The City is required to comply with certain requirements of the Code after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirements to the extent applicable to the Bonds. The City has covenanted in the Ordinance to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds.

Corporate Alternative Minimum Tax. While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75 percent of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of \$40,000, which exemption will be reduced (but not below zero) by 25 percent of the amount by which the corporation's alternative minimum taxable income exceeds \$150,000, is then subject to a 20 percent minimum tax.

For taxable years beginning after December 31, 1997, the corporate alternative minimum tax is repealed for a small business corporation that had average gross receipts of less than \$5 million for the three-year period beginning after December 31, 1994, and such a small business corporation will continue to be exempt from the corporate alternative minimum tax so long as its average gross receipts do not exceed \$7.5 million.

Tax on Certain Passive Investment Income of S Corporations. Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25 percent of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax. Interest on the Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Certain Other Federal Tax Consequences

Bonds Not “Qualified Tax-Exempt Obligations” for Financial Institutions. Section 265 of the Code provides that 100 percent of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as “qualified tax-exempt obligations,” only 20 percent of any interest expense deduction allocable to those obligations will be disallowed.

The City is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has not designated the Bonds as “qualified tax-exempt obligations” for purposes of the 80 percent financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest on the Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15 percent of tax-exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits. Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the Bonds may have other federal tax consequences as to which prospective purchasers of the Bonds may wish to consult their own tax advisors.

Original Issue Discount. The Bonds maturing on November 1, in the years 2013 through 2019, inclusive, have been sold at prices reflecting original issue discount (“Discount Bonds”). Under existing law, the original issue discount in the selling price of each Discount Bond, to the extent properly allocable to each owner of such Discount Bond, is excluded from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated redemption price at maturity of such Discount Bond over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the Discount Bonds of such maturity were sold.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner of a Discount Bond during any accrual period generally equals (i) the issue price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the owner's tax basis in such Discount Bond. Any gain realized by an owner from a sale, exchange, payment or redemption of a Discount Bond will be treated as gain from the sale or exchange of such Discount Bond.

The portion of original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. The accrual of such portion of the original issue discount will be included in the calculation of alternative minimum tax liability as described above, and may result in an alternative minimum tax liability even though the owner of such Discount Bond will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the first offering price at which a substantial amount of those Discount Bonds were sold to the public, or who do not purchase Discount Bonds in the initial public offering, should consult their own tax advisors with respect to the tax consequences of the ownership of such Discount Bonds. Owners of Discount Bonds who sell or otherwise dispose of such Discount Bonds prior to maturity should consult their own tax advisors with respect to the amount of original issue discount accrued over the period such Discount Bonds have been held and the amount of taxable gain or loss to be recognized upon that sale or other disposition of Discount Bonds. Owners of Discount Bonds also should consult their own tax advisors with respect to state and local tax consequences of owning such Discount Bonds.

Original Issue Premium. The Bonds maturing on November 1, in the years 2000 through 2006, inclusive, have been sold at prices reflecting original issue premium ("Premium Bonds"). An amount equal to the excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. The amount of amortizable premium allocable to an interest accrual period for a Premium Bond will offset a like amount of qualified stated interest on such Premium Bond allocable to that accrual period, and may affect the calculation of alternative minimum tax liability described above. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

Continuing Disclosure Undertaking

Basic Undertaking to Provide Annual Financial Information and Notice of Material Events. To meet the requirements of United States Securities and Exchange Commission ("SEC") Rule 15c2-12(b)(5) (the "Rule"), as applicable to a participating underwriter for the Bonds, the City will undertake in the Bond Resolution (the "Undertaking") for the benefit of holders of the Bonds to provide or cause to be provided to each nationally recognized municipal securities information repository designated by the SEC in accordance with the Rule ("NRMSIR") and to a state information depository, if one is established in the State of Washington and recognized by the SEC (the "SID"), annual financial information and operating data of the type included in the Official Statement with respect to the Solid Waste System as generally described below ("annual financial information"); and to each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB"), and to the SID, timely notice of the occurrence of any of the following events with respect to the Bonds, if material: (i) principal and interest payment delinquencies, (ii) non-payment related defaults, (iii) unscheduled draws on debt service reserves reflecting financial difficulties, (iv) unscheduled draws on credit enhancements reflecting financial difficulties, (v) substitution of credit or liquidity providers, or their failure to perform, (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds, (vii) modifications to rights of holders of the Bonds, (viii) Bond calls (other than mandatory redemption of term bonds), (ix) defeasances, (x) release, substitution or sale of property securing repayment of the Bonds, and (xi) rating changes. The City also will provide to each NRMSIR or to the MSRB, and to the SID, timely notice of a failure by the City to provide required annual financial information on or before the date specified below.

For purposes of this section, "Continuing Disclosure Undertaking," the term "holders of the Bonds" shall have the meaning intended for such term under the Rule.

Type of Annual Financial Information Undertaken to be Provided. The annual financial information that the City undertakes to provide will consist of (i) annual financial statements of the Solid Waste System, prepared in accordance with generally accepted accounting principles applicable to governmental units (except as otherwise noted therein), as such principles may be changed from time to time and as permitted by State law; which statements will not be audited, except that if and when audited financial statements are otherwise prepared and available to the City they will be provided; (ii) a statement of authorized, issued and outstanding bonded debt secured by Net Revenue of the Solid Waste System; (iii) debt service coverage ratios;

(iv) summary operating statistics for the Solid Waste System, including data of the type herein in the tables entitled "Solid Waste Tonnages," "1999 Transfer Station Fees" and "Number of Customers by Class"; and (v) current rates, and will be provided to each NRMSIR and the SID not later than the last day of the ninth month after the end of each fiscal year of the City, as such fiscal year may be changed as required or permitted by State law, commencing with the City's current fiscal year ending December 31, 1999.

In its provision of annual financial information, the City may cross-reference to any "final official statement" with respect to other obligations of the City (as defined in the Rule) available from the MSRB or any other documents provided to each then existing NRMSIR and the SID.

Amendment of Undertaking. The Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any holder of any Bond, or any broker, dealer, municipal securities dealer, participating underwriter, rating agency, NRMSIR, the SID, or the MSRB, under the circumstances and in the manner permitted by the Rule.

The City will give notice to each NRMSIR or the MSRB, and the SID, of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended operating data or financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

Termination of Undertaking. The City's obligations to provide annual financial information and notices of certain events will terminate upon the legal defeasance, prior redemption or payment in full of all of the then outstanding Bonds. In addition, the Undertaking, or any provision thereof, will be null and void if the City (i) obtains an opinion of nationally recognized bond counsel or other counsel familiar with the federal securities laws to the effect that those portions of the Rule which require the Undertaking, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; and (ii) so notifies the SID and either the MSRB or each then existing NRMSIR.

Remedy for Failure to Comply with Undertaking. If the City fails to comply with the Undertaking, the City will proceed with due diligence to cause such noncompliance to be corrected as soon as practicable after the City learns of that failure.

No failure by the City (or any other obligated person) to comply with the Undertaking will constitute a default in respect of the Bonds. The sole remedy of any holder of a Bond will be to take such actions as that holder deems necessary and appropriate to compel the City or other obligated person to comply with the Undertaking.

Other Continuing Disclosure Undertakings of the City. The City has entered into undertakings to provide annual information and the notice of the occurrence of certain events with respect to all bonds issued by the City on and after July 3, 1995, and subject to the Rule. The City is in compliance with all such undertakings.

Other Bond Information

Municipal Bond Insurance

The information under this heading, "Municipal Bond Insurance," has been provided by Ambac Assurance Corporation.

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, and the Commonwealth of Puerto Rico, with admitted assets of approximately \$3,573,000,000 (unaudited) and statutory capital of approximately \$2,139,000,000 (unaudited) as of June 30, 1999. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Group, a

Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch IBCA, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its municipal bond insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the Bonds.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under this heading "Municipal Bond Insurance."

Available Information. The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 7 World Trade Center, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005. The Company's Common Stock is listed on the NYSE.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York, 10004 and (212) 668-0340.

Incorporation of Certain Documents By Reference. The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

- (1) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998, and filed on March 31, 1999;
- (2) The Company's Current Report on Form 8-K, dated March 24, 1999, and filed on March 24, 1999;
- (3) The Company's 1999 Proxy Statement dated March 30, 1999 and filed on March 30, 1999;
- (4) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 1999 and filed on May 12, 1999;
- (5) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 1999 and filed on August 13, 1999.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

Payment Pursuant to Municipal Bond Insurance Policy. Ambac Assurance has made a commitment to issue a municipal bond insurance policy (the "Municipal Bond Insurance Policy") relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Municipal Bond Insurance Policy, Ambac Assurance will pay to the United States Trust Company of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Municipal Bond Insurance Policy). Ambac Assurance will make such payments to the Insurance

Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee/Paying Agent. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Municipal Bond Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Paying Agent has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the County has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Municipal Bond Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Municipal Bond Insurance Policy does not cover:

- (1) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity,
- (2) payment of any redemption, prepayment or acceleration premium,
- (3) nonpayment of principal or interest caused by the insolvency or negligence of any Escrow Agent, if any.

If it becomes necessary to call upon the Municipal Bond Insurance Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Municipal Bond Insurance Policy. Payment of interest pursuant to the Municipal Bond Insurance Policy requires proof of Bondholder entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Bond and will be fully subrogated to the surrendering Bondholder's rights to payment.

Ambac Assurance Year 2000 Readiness Disclosure. The issue commonly known as the Y2K problem ("Y2K") relates to whether computer programs and embedded computer chips will be able to distinguish between the year 1900 and the year 2000. In 1998, the Company commenced an initiative to assess and address any risks posed by the Y2K problem. This initiative was a high priority undertaking and considered crucial to the operation of the Company's businesses. Pursuant to this initiative, the Company assessed the risks to its businesses related to the functionality of its own computer systems and those of third parties. All phases of the initiative have been completed and the Company has substantially addressed any problems brought to light as a result of the initiative.

The initiative was comprised of a three-phase process. Phase I was an inventory analysis and impact assessment. Phase II was the testing phase during which all critical systems were tested, transactions were run through critical systems by applying various permutations and combinations of Y2K sensitive dates, and results were reviewed independently by each business unit. In Phase III, the extent of code repair was determined and remediated. The total cost of identifying, testing and remediating its critical systems was approximately \$1.1 million, \$0.4 million of which was incurred during 1999.

The Company's principal Y2K risks include risk that the Company does not successfully ready its operations for the next century. The Company, like other financial institutions, is heavily dependent upon its computer systems. Y2K problems in the Company's internal systems could result in an interruption in, or failure of, certain normal business activities or operations. Such failures could adversely affect the Company's operations. Although findings indicate that the systems supporting the Company's internal operations will be compliant, management has nevertheless developed contingent procedures in the event its critical systems should fail. These procedures have been approved by the Company's Board of Directors and are in the process of being tested.

Another potential risk is the failure by an obligor of obligations insured by Ambac Assurance and its subsidiaries to make scheduled payment of debt service due to the obligor's Y2K-related systems, thus triggering a claim under an Ambac Assurance insurance policy. In the unlikely event a claim resulting solely from a Y2K problem occurs, the Company would utilize its sources of liquidity to pay claims and has in fact increased liquidity for such purpose. The Company would expect full recovery of such claims when Y2K problems are resolved.

Additional potential risks include the risk of disruption of Company operations due to operational failures of third parties and the risk of Y2K systems-related failure by the trustees or paying agents on transactions insured by Ambac Assurance. This latter risk is mitigated by the fact that Ambac Assurance's obligation to pay claims is related to the creditworthiness of the issuer and not the trustee.

More complete year 2000 disclosure for the Company is set forth in the Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 1999, and filed with the Securities and Exchange Commission on August 13, 1999. Such information is specifically incorporated by reference herein.

No assurance is made regarding the ultimate outcome of the Company's plan, and external failures (such as failures affecting securities exchanges or funds and securities clearing organizations) could have a material adverse impact on the operations of the Company and its subsidiaries, including Ambac Assurance.

Ratings

Ratings of AAA and Aaa, respectively, have been assigned to the Bonds by Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies ("S&P"), and Moody's Investors Service ("Moody's"), conditioned upon the delivery of a municipal bond insurance policy by Ambac Assurance Corporation. S&P and Moody's have assigned underlying ratings to the Bonds of A+ and A1, respectively. Such ratings will reflect only the views of the rating organizations and an explanation of the significance of the ratings may be obtained from the rating agencies as follows: Moody's Investors Service, 99 Church Street, New York, New York 10007, (212) 553-0300; Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041, (212) 208-8000. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies if, in the judgment of the agencies, circumstances so warrant. Any such downward revision or withdrawal of any of the ratings may have an adverse effect on the market price of the Bonds.

Purchaser of the Bonds

The Bonds are being purchased by Salomon Smith Barney (the "Purchaser") at a price of \$5,417,500, plus accrued interest. The Bonds will be reoffered at the prices or yields set forth on the cover of this Official Statement. The Purchaser may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on the cover hereof,

and such initial offering prices may be changed from time to time by the Purchaser. After the initial public offering, the public offering prices may be varied from time to time.

The Bank of New York Year 2000 Compliance

The following information has been provided by The Bank of New York. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds should confirm the following with The Bank of New York.

The Trustee has established a Year 2000 compliance program consisting of, among other things, updating major proprietary application systems and evaluating the Year 2000 compliance efforts of vendors of major vendor-supplied systems and certain other business partners. The Trustee believes that its Year 2000 compliance program is currently on schedule to meet the needs of its customers and the compliance deadlines defined by its regulators. As of December 31, 1998, testing and renovation of the proprietary application systems that the Trustee deems "mission critical" were substantially completed and these systems are currently being used by the Trustee. In addition, all vendor supplied software systems that the Trustee deems mission critical have been tested and, based upon such testing, the Trustee believes that such systems will not be adversely affected in a material way by the date change to the Year 2000.

Due to the general uncertainty inherent in the Year 2000 problem, resulting in part from the uncertainty of the Year 2000 readiness of suppliers, customers and other business partners, the Trustee is unable to determine at this time whether the consequences of Year 2000 failures will have a material impact on the Trustee and its ability to perform its obligations under the trust indenture. The Year 2000 compliance program is intended to reduce significantly the Trustee's level of uncertainty about the Year 2000 problem and, in particular, the Year 2000 compliance and readiness of the Trustee and its material business partners. The Trustee believes that, with completion of its Year 2000-compliance program as scheduled, the possibility of significant interruptions of normal operations should be reduced. However, because of the unprecedented nature of the Year 2000 problem, there can be no certainty as to its impact.

Official Statement

So far as any statements are made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Information concerning the City, SPU and the Solid Waste System contained in this Official Statement has been furnished by the City. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of any of the Bonds.

The execution and delivery of this Official Statement have been duly authorized by the City.

The City of Seattle

/s/

Dwight D. Dively
Finance Director

Appendix A

Ordinance

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THE CITY OF SEATTLE, WASHINGTON
ORDINANCE 119648

AN ORDINANCE relating to the solid waste system of The City of Seattle, Washington; adopting a system or plan of additions or betterments to or extensions of the solid waste system; authorizing the issuance and sale of solid waste revenue bonds for the purposes of paying part of the cost of carrying out that system or plan and providing a reserve for and paying the costs of issuing and selling those bonds; describing the terms, conditions, covenants, lien and manner of sale of those bonds; and creating certain accounts of the City.

Passed September 7, 1999

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
SECTION 1. DEFINITIONS.....	1	SECTION 15. PARITY BOND COVENANTS.	14
SECTION 2. ADOPTION OF PLAN OF ADDITIONS.....	6	(a) Establishment and Collection of Rates and Charges.	14
SECTION 3. AUTHORIZATION AND DESCRIPTION OF BONDS.	7	(b) Maintenance and Operation of the Solid Waste System.....	14
SECTION 4. REGISTRATION AND TRANSFER OR EXCHANGE OF BONDS.	7	(c) Liens Upon the Solid Waste System.	14
SECTION 5. MUTILATED, LOST, STOLEN AND DESTROYED BONDS.	9	(d) Books and Accounts.	14
SECTION 6. PAYMENT OF BOND PRINCIPAL AND INTEREST.....	9	(e) Collection of Delinquent Accounts.	15
SECTION 7. REDEMPTION AND OPEN MARKET PURCHASE OF BONDS.	9	(f) Maintenance of Insurance.....	15
(a) Optional Redemption.....	9	(g) Condemnation Awards and Insurance Proceeds.....	15
(b) Mandatory Redemption.....	9	(h) Sale of System.	15
(c) Partial Redemption.	10	SECTION 16. ISSUANCE OF FUTURE PARITY BONDS.	15
(d) Open Market Purchase.	10	(a) General.....	15
(e) Bonds to be Canceled.	10	(b) Issuance of Refunding Parity Bonds.	16
SECTION 8. NOTICE OF REDEMPTION.....	10	(c) No Limitation on Junior Lien Bonds.....	17
SECTION 9. FAILURE TO REDEEM BONDS.....	10	SECTION 17. RATE STABILIZATION ACCOUNT.....	17
SECTION 10. FORM AND EXECUTION OF BONDS.	10	SECTION 18. SEPARATE UTILITY SYSTEMS.....	17
SECTION 11. BOND REGISTRAR.....	11	SECTION 19. CONTRACT RESOURCE OBLIGATIONS.....	17
SECTION 12. FINDING OF SUFFICIENCY OF GROSS REVENUE.....	11	SECTION 20. PRESERVATION OF TAX EXEMPTION FOR INTEREST ON BONDS.	18
SECTION 13. SECURITY FOR PARITY BONDS.	11	SECTION 21. CONTINUING DISCLOSURE.	18
(a) Pledge of Net Revenue.	11	SECTION 22. REFUNDING OR DEFEASANCE OF BONDS.	18
(b) Bond Account; Principal and Interest Subaccount.....	12	SECTION 23. AMENDMENTS.	18
(c) Reserve Subaccount.....	12	(a) Amendments Without Bond Owners’ Consent.	18
SECTION 14. FLOW OF FUNDS.....	13	(b) Amendments With Bond Owners’ Consent.	19
		(c) Effect of Amendment.	19
		(d) Notation on Bonds.....	19

	<u>Page</u>
1 SECTION 24. DEFAULTS AND REMEDIES.	19
2 (a) Events of Default.	19
3 (b) Bond Owners' Trustee.	20
4 (c) Suits at Law or in Equity.	20
5 (d) Application of Money Collected by Bond	
6 Owners' Trustee.	21
7 (e) Duties and Obligations of Bond Owners'	
8 Trustee.	21
9 (f) Suits by Individual Bond Owners	
10 Restricted.	21
11 (g) Failure to Comply With Undertaking.	22
12 SECTION 25. CONSTRUCTION ACCOUNT;	
13 DEPOSIT OF PROCEEDS.	22
14 SECTION 26. SALE OF BONDS.	22
15 SECTION 27. BONDS NEGOTIABLE.	22
16 SECTION 28. GENERAL AUTHORIZATION.	22
17 SECTION 29. SEVERABILITY.	23
18 SECTION 30. RATIFICATION OF PRIOR	
19 ACTS.	23
20 SECTION 31. HEADINGS.	23
21 SECTION 32. EFFECTIVE DATE.	23
22	
23	
24	
25	
26	

THE CITY OF SEATTLE, WASHINGTON

ORDINANCE 119648

AN ORDINANCE relating to the solid waste system of The City of Seattle, Washington; adopting a system or plan of additions or betterments to or extensions of the solid waste system; authorizing the issuance and sale of solid waste revenue bonds for the purposes of paying part of the cost of carrying out that system or plan and providing a reserve for and paying the costs of issuing and selling those bonds; describing the terms, conditions, covenants, lien and manner of sale of those bonds; and creating certain accounts of the City.

WHEREAS, The City of Seattle, Washington (the "City") owns, maintains and operates a solid waste collection and disposal system, formerly administered as the Solid Waste Utility and now operated as part of Seattle Public Utilities (the "Solid Waste System"), which Solid Waste System has from time to time required various additions, improvements and extensions; and

WHEREAS, by Ordinance 118975 and Resolution 29791, as amended, the City issued its Forty Million Nine Hundred Thousand Dollars (\$40,900,000) original principal amount Solid Waste Revenue Refunding Bonds, 1999 (the "Outstanding Parity Bonds"), and provided for the issuance of additional bonds having a lien and charge on the Net Revenue of the Solid Waste System on a parity of lien with the Outstanding Parity Bonds upon compliance with certain conditions; and

WHEREAS, the City has need to acquire and construct certain additions or betterments to or extensions of the Solid Waste System adopted by this ordinance (the "Plan of Additions"); and

WHEREAS, the City has determined to issue solid waste revenue bonds on a parity of lien with the Outstanding Parity Bonds to pay part of the cost of carrying out the Plan of Additions, and to provide for a reserve for and pay the costs of issuing and selling those bonds; NOW, THEREFORE,

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

Section 1. Definitions. As used in this ordinance, the following words and phrases shall have the meanings set forth below.

"Accreted Value" means with respect to any Capital Appreciation Bonds (a) as of any Valuation Date, the amount set forth for such date in any Parity Bond Ordinance authorizing such Capital Appreciation Bonds and (b) as of any date other than a Valuation Date, the sum of (i) the Accreted Value on the preceding Valuation Date and (ii) the product of (A) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, calculated based on the assumption that Accreted Value accrues during any semiannual period in equal daily amounts on the basis of a year of twelve 30-day months, times (B) the difference between the Accreted Values for such Valuation Dates.

"Adjusted Gross Revenue" for any period means Gross Revenue plus withdrawals from the Rate Stabilization Account made during that period, and less deposits into the Rate Stabilization account made during that period.

"Adjusted Net Revenue" means Adjusted Gross Revenue less Maintenance and Operation Expenses.

"Annual Debt Service" for any calendar year means the sum of the amounts required in such calendar year to pay:

(a) the interest due in such calendar year on all Parity Bonds outstanding, excluding interest to be paid from the proceeds of the sale of Parity Bonds or other bonds; and

(b) the principal of all outstanding Serial Bonds due in such calendar year; and

(c) the Sinking Fund Requirement, if any, for such calendar year.

For purposes of this definition, the principal and interest portions of the Accreted Value of Capital Appreciation Bonds becoming due at maturity or by virtue of a Sinking Fund Requirement shall be included

1 in the calculations of accrued and unpaid and accruing
2 interest or principal in such manner and during such
3 period of time as is specified in any Parity Bond
Ordinance authorizing such Capital Appreciation
Bonds.

4 For purposes of calculating and determining
5 compliance with the Reserve Requirement, the
6 Coverage Requirement and conditions for the issuance
7 of Future Parity Bonds and/or entering into Parity
8 Payment Agreements:

9 (i) Generally. Except as otherwise provided by
10 subparagraph (ii) with respect to Variable Interest Rate
11 Bonds and by subparagraph (iii) below with respect to
12 Parity Bonds with respect to which a Payment
13 Agreement is in force, interest on any issue of Parity
14 Bonds shall be calculated based on the actual amount
15 of accrued, accreted or otherwise accumulated interest
16 that is payable in respect of that issue taken as a whole,
17 at the rate or rates set forth in the applicable Parity
18 Bond Ordinance;

19 (ii) Interest on Variable Interest Rate Bonds.
20 The amount of interest deemed to be payable on any
21 issue of Variable Interest Rate Bonds shall be
22 calculated on the assumption that the interest rate on
23 those bonds would be equal to the rate that is ninety
24 percent (90%) of the average RBI during the four
25 calendar quarters preceding the quarter in which the
26 calculation is made;

(iii) Interest on Parity Bonds With Respect to
Which a Payment Agreement is in Force. Debt service
on Parity Bonds with respect to which a Payment
Agreement is in force shall be based on the net
economic effect on the City expected to be produced
by the terms of the Parity Bonds and the terms of the
Payment Agreement, including but not limited to the
effects produced by the following: (A) Parity Bonds
that would, but for a Payment Agreement, be treated as
obligations bearing interest at a Variable Interest Rate
instead shall be treated as obligations bearing interest at
a fixed interest rate, and (B) Parity Bonds that would,
but for a Payment Agreement, be treated as obligations
bearing interest at a fixed interest rate instead shall be
treated as obligations bearing interest at a Variable
Interest Rate. Accordingly, the amount of interest
deemed to be payable on any Parity Bonds with respect
to which a Payment Agreement is in force shall be an
amount equal to the amount of interest that would be
payable at the rate or rates stated in those Parity Bonds
plus Payment Agreement Payments minus Payment
Agreement Receipts. For the purposes of calculating as

nearly as practicable Payment Agreement Receipts and
Payment Agreement Payments under a Payment
Agreement that includes a variable rate component
determined by reference to a pricing mechanism or
index that is not the same as the pricing mechanism or
index used to determine the variable rate interest
component on the Parity Bonds to which the Payment
Agreement is related, it shall be assumed that the fixed
rate used in calculating Payment Agreement Payments
will be equal to 105% of the fixed rate specified by the
Payment Agreement and that the pricing mechanism or
index specified by the Payment Agreement is the same
as the pricing mechanism or index specified by the
Parity Bonds. Notwithstanding the other provisions of
this subparagraph (iii), the City shall not be required to
(but may in its discretion) take into account in
determining Annual Debt Service the effects of any
Payment Agreement that has a term of ten (10) years or
less;

(iv) Parity Payment Agreements. No additional
debt service shall be taken into account with respect to
a Parity Payment Agreement for any period during
which Payment Agreement Payments on that Parity
Payment Agreement are taken into account in
determining Annual Debt Service on related Parity
Bonds under subparagraph (iii) of this definition.
However, for any period during which Payment
Agreement Payments are not taken into account in
calculating Annual Debt Service on any outstanding
Parity Bonds because the Parity Payment Agreement is
not then related to any outstanding Parity Bonds,
payments on that Parity Payment Agreement shall be
taken into account by assuming:

(A) City Obligated To Make
Payments Based On Fixed Rate. If the City is
obligated to make Payment Agreement Payments based
on a fixed rate and the Qualified Counterparty is
obligated to make payments based on a variable rate
index, that payments by the City will be based on the
assumed fixed payor rate, and that payments by the
Qualified Counterparty will be based on a rate equal to
the average rate determined by the variable rate index
specified by the Parity Payment Agreement during the
four calendar quarters preceding the quarter in which
the calculation is made, and

(B) City Obligated To Make
Payments Based On Variable Rate Index. If the City
is obligated to make Payment Agreement Payments
based on a variable rate index and the Qualified
Counterparty is obligated to make payment based on a

1 fixed rate, that payments by the City will be based on a
2 rate equal to the average rate determined by the
3 variable rate index specified by the Parity Payment
4 Agreement during the four calendar quarters preceding
5 the quarter in which the calculation is made, and that
6 the Qualified Counterparty will make payments based
7 on the fixed rate specified by the Parity Payment
8 Agreement.

9 “Bond Account” means that special account
10 known as the Solid Waste System Revenue Bond
11 Account, created in the Solid Waste Fund by
12 Ordinance 118975 for the payment of the principal of
13 and interest on the Parity Bonds.

14 “Bond Counsel” means a lawyer or a firm of
15 lawyers, selected by the City, of nationally recognized
16 standing in matters pertaining to bonds issued by states
17 and their political subdivisions.

18 “Bond Register” means the books or records
19 maintained by the Bond Registrar for the purpose of
20 registration of the Bonds.

21 “Bond Registrar” or “Registrar” means the fiscal
22 agency of the State of Washington, or any successor
23 bond registrar selected by the City, whose duties
24 include the registration and authentication of the
25 Bonds, maintenance of the Bond Register, effecting
26 transfer of ownership of the Bonds, and paying the
principal of and premium, if any, and interest on the
Bonds.

“Bond Resolution” means the resolution or
resolutions fixing certain provisions of the Bonds and
their sale as authorized by Section 3 of this ordinance.

“Bonds” means the bonds authorized to be issued
pursuant to, under the authority of and for the purposes
provided in this ordinance.

“Capital Appreciation Bonds” means any Parity
Bonds as to which interest is payable only at the
maturity or prior redemption of such Parity Bonds. For
the purpose of (a) receiving payment of the redemption
premium, if any, of a Capital Appreciation Bond that is
redeemed prior to maturity, or (b) computing the
principal amount of Parity Bonds held by the owner of
a Capital Appreciation Bond in giving to the City or the
paying agent for those bonds any notice, consent,
request, or demand pursuant to this ordinance or for
any purpose whatsoever, the principal amount of a
Capital Appreciation Bond shall be deemed to be its
Accreted Value.

“CIP” means the portion or portions relating to the
Solid Waste System of the “1999-2004 Capital
Improvement Program” of the City as adopted by the
City in Ordinance 119246, passed November 23, 1998,
as the CIP may be amended, updated, supplemented or
replaced from time to time by ordinance.

“City” means The City of Seattle, Washington, a
municipal corporation duly organized and existing
under the laws of the State of Washington.

“City Council” means the City Council of the City,
as duly and regularly constituted from time to time.

“Code” means the Internal Revenue Code of 1986,
as amended, or any successor thereto, and all
applicable regulations thereunder.

“Construction Account” means the “Solid Waste
Construction Account, 1999,” created in the Solid
Waste Fund by this ordinance.

“Contract Resource Obligation” means an
obligation of the City, designated as a Contract
Resource Obligation and entered into pursuant to
Section 19 of this ordinance, to make payments for
collection, transportation, treatment and disposal of
solid waste, or other commodity or service related to
the Solid Waste System, to another person or entity
(including without limitation a separate utility system
created pursuant to Section 18 of this ordinance).

“Coverage Requirement” in any fiscal year means
the amount of Adjusted Net Revenue equal to at least
1.25 times Annual Debt Service in that year on all
Parity Bonds then Outstanding.

“DTC” means The Depository Trust Company,
New York, New York, as initial Securities Depository
for the Bonds.

“Event of Default” means an Event of Default as
defined in Section 24 of this ordinance.

“Finance Director” means the Director of the
Finance Division of the Executive Services Department
of the City.

“Future Parity Bonds” means any fixed or variable
rate revenue bonds of the City (other than the Bonds)
issued hereafter having a charge or lien upon the Net
Revenue for payment of the principal thereof and
interest thereon equal in priority to the charge or lien
upon the Net Revenue for the payment of the principal
of and interest on the Outstanding Parity Bonds and the
Bonds. Future Parity Bonds may include Parity

1 Payment Agreements and any other obligations issued
2 in compliance with Section 16.

3 “Government Obligations” means direct
4 obligations of, or obligations the principal of and
5 interest on which are unconditionally guaranteed by,
6 the United States Government.

7 “Gross Revenue” means (a) all income, revenues,
8 receipts and profits derived by the City through the
9 ownership and operation of the Solid Waste System;
10 (b) Payment Agreement Receipts, to the extent that
11 such receipts are not offset by Payment Agreement
12 Payments; and (c) the investment income earned on
13 money held in any fund or account of the City,
14 including any bond redemption funds and the accounts
15 therein, in connection with the ownership and operation
16 of the Solid Waste System. Gross Revenue does not
17 include: (A) income derived from investments
18 irrevocably pledged to the payment of any defeased
19 bonds payable from Gross Revenue; (B) investment
20 income earned on money in any fund or account
21 created or maintained solely for the purpose of
22 complying with the arbitrage rebate provisions of the
23 Code; (C) any gifts, grants, donations or other funds
24 received by the City from any State or federal agency
25 or other person if such gifts, grants, donations or other
26 funds are the subject of any limitation or reservation
imposed by the donor or grantor or imposed by law or
administrative regulation to which the donor or grantor
is subject, limiting the application of such funds in a
manner inconsistent with the application of Gross
Revenue hereunder; (D) the proceeds of any borrowing
for capital improvements (or the refinancing thereof);
(E) the earnings of any separate utility system acquired
or constructed by the City pursuant to Section 18 of
this ordinance; and (F) the proceeds of any liability or
other insurance, including but not limited to insurance
proceeds compensating the City for the loss of a capital
asset, but excluding business interruption insurance or
other insurance of like nature insuring against the loss
of revenues.

21 “Letter of Representations” means the Letter of
22 Representations relating to the Bonds to be delivered
23 by the City to DTC.

24 “Maintenance and Operation Expenses” means all
25 expenses incurred by the City in causing the Solid
26 Waste System to be operated and maintained in good
repair, working order and conditions, including without
limitation: deposits, premiums, assessments or other
payments for insurance (other than payments out of
proceeds of Parity Bonds), if any, on the Solid Waste

System; payments into pension funds; State-imposed
taxes; amounts due under Contract Resource
Obligations (but only at the times described in
Section 19 of this ordinance); payments made to any
other person or entity for the collection, transportation,
treatment or disposal of solid waste or other
commodity or service related to the Solid Waste
System; and payments with respect to any other
expenses of the Solid Waste System that are properly
treated as operation and maintenance expenses under
generally accepted accounting principles. Maintenance
and Operation Expenses does not include any
depreciation, amortization, or taxes levied or imposed
by the City or payments to the City in lieu of taxes, or
capital additions or capital replacement.

“Maximum Annual Debt Service” means, at the
time of calculation, the maximum amount of Annual
Debt Service that will become due in any calendar year
on all then-outstanding Parity Bonds.

“Mayor” means the Mayor of the City.

“Moody’s” means Moody’s Investors Service, Inc.

“Net Revenue” means Gross Revenue less
Maintenance and Operation Expenses.

“Outstanding Parity Bonds” means the Solid
Waste Revenue Refunding Bonds, 1999, of the City
authorized by Ordinance 118975 and Resolution
29791, as amended.

“Parity Bond Ordinance” means any ordinance or
resolution duly enacted by the City providing for the
issuance of Parity Bonds, and any other ordinance or
resolution amending or supplementing the provisions
of any Parity Bond Ordinance as originally enacted or
as therefore amended or supplemented.

“Parity Bonds” means the Outstanding Parity
Bonds, the Bonds and any Future Parity Bonds.

“Parity Payment Agreement” means a Payment
Agreement, under which the City’s obligations are
expressly stated to constitute a charge and lien on the
Net Revenue equal in rank with the charge and lien
upon such Net Revenue required to be paid into the
Bond Account to pay and secure the payment of the
principal of and interest on Parity Bonds.

“Payment Agreement” means a written contract
entered into, for the purpose of managing or reducing
the City’s exposure to fluctuations or levels of interest
rates or for other interest rate, investment, asset or
liability management purposes, by the City and a

1 Qualified Counterparty on either a current or forward
2 basis as authorized by any applicable laws of the State
3 in connection with, or incidental to, the issuance,
4 incurring or carrying of particular bonds, notes, bond
5 anticipation notes, commercial paper or other
6 obligations for borrowed money, or lease, installment
purchase or other similar financing agreements or
certificates of participation therein, that provides for an
exchange of payments based on interest rates, ceilings
or floors on such payments, options on such payments,
or any combination thereof or any similar device.

7 "Payment Agreement Payments" means the
8 amounts, periodically required to be paid by the City to
the Qualified Counterparty pursuant to a Payment
Agreement.

9 "Payment Agreement Receipts" means the
10 amounts periodically required to be paid by the
Qualified Counterparty to the City pursuant to a
Payment Agreement.

11 "Permitted Investments" means any investments or
12 investment agreements permitted for the investment of
City funds under the laws of the State as amended from
time to time.

13 "Plan of Additions" means the CIP, as it may be
14 modified hereafter as described herein.

15 "Professional Utility Consultant" means the
16 independent person(s) or firm(s) selected by the City
having a favorable reputation for skill and experience
with solid waste systems of comparable size and
17 character to the Solid Waste System in such areas as
are relevant to the purposes for which they were
retained.

18 "Qualified Counterparty" means a party (other
19 than the City or a person related to the City) who is the
other party to a Payment Agreement and who is
20 qualified to act as the other party to a Payment
Agreement under any applicable laws of the State.

21 "Qualified Insurance" means any municipal bond
22 insurance policy or surety bond issued by any insurance
company licensed to conduct an insurance business in
any state of the United States (or by a service
23 corporation acting on behalf of one or more such
insurance companies) which insurance company or
24 companies, as of the time of issuance of such policy or
surety bond, are rated in one of the two highest rating
25 categories by Moody's and S&P or their comparably
26 recognized business successors.

"Qualified Letter of Credit" means any letter of
credit issued by a financial institution for the account of
the City on behalf of the owners of Parity Bonds, which
institution maintains an office, agency or branch in the
United States and as of the time of issuance of such
letter of credit is rated in one of the two highest rating
categories by Moody's and S&P or their comparably
recognized business successors.

"Rate Stabilization Account" means the account of
that name created in the Solid Waste Fund pursuant to
Ordinance 118975.

"Rating Agencies" means Moody's and S&P, and
their successors and any other nationally-recognized
securities rating agency or agencies rating Parity Bonds
at the request of the City.

"RBI" means *The Bond Buyer* Revenue Bond
Index or comparable index, or, if no comparable index
can be obtained, eighty percent (80%) of the interest
rate for actively traded thirty (30) year United States
Treasury obligations.

"Refunding Parity Bonds" means Parity Bonds
issued for the purpose of refunding bonds of any prior
series of Parity Bonds.

"Reserve Requirement" means, at any time, the
lesser of (a) Maximum Annual Debt Service; or (b) the
maximum amount permitted by the Code as a
"reasonably required reserve or replacement fund."

"Reserve Subaccount" means the subaccount of
that name created in the Bond Account by Ordinance
118975.

"S&P" means Standard & Poor's Ratings
Services, a Division of The McGraw-Hill Companies,
Inc.

"Securities Depository" means any one of the
following registered securities depositories which has
been designated by the City: (i) DTC; (ii) Midwest
Securities Trust Company, Chicago, Illinois,
(iii) Philadelphia Depository Trust Company,
Philadelphia, Pennsylvania; or (iv) such other securities
depositories as the City may designate in a certificate of
the City delivered to the Bond Registrar.

"Serial Bonds" means Parity Bonds maturing in
specified years, for which no Sinking Fund
Requirements are mandated.

1 “Sinking Fund Subaccount” means any subaccount
2 created in the Bond Account to amortize the principal
or make mandatory redemptions of Term Bonds.

3 “Sinking Fund Requirement” means, for any
4 calendar year, the principal amount and premium, if
5 any, of Term Bonds required to be purchased,
redeemed, paid at maturity or paid into any Sinking
Fund Subaccount for such calendar year as established
by the Parity Bond Ordinance authorizing the issuance
of such Term Bonds.

6 “Solid Waste Fund” means the special fund of the
7 City of that name heretofore created and established by
the City Council.

8 “Solid Waste System” means the entire solid waste
9 collection, transportation and disposal system of the
10 City, created by Ordinance 90379, as amended,
together with all additions thereto and betterments and
11 extensions thereof at any time made, acquired or
constructed, together with any other utility systems of
the City hereafter combined with the Solid Waste
System. The Solid Waste System shall not include any
12 separate utility system acquired or constructed by the
City pursuant to Section 18 hereof.

13 “State” means the State of Washington.

14 “Term Bonds” means any Parity Bonds identified
15 as such in the Parity Bond Ordinance authorizing the
issuance thereof, which Parity Bond Ordinance
requires that such bonds be purchased, redeemed or
16 paid prior to maturity in a schedule established thereby.

17 “Undertaking” means the City’s undertaking in the
Bond Resolution to provide certain disclosure as
18 provided by Section 21.

19 “Valuation Date” means, with respect to any
Capital Appreciation Bonds, the date or dates set forth
in any Parity Bond Ordinance authorizing such Parity
20 Bonds on which specific Accreted Values are assigned
to the Capital Appreciation Bonds.

21 “Variable Interest Rate” means any variable
22 interest rate or rates to be borne by any Parity Bonds.
The method of computing such a variable interest rate
23 shall be as specified in the Parity Bond Ordinance
authorizing or specifying the terms of such Parity
24 Bonds, which Parity Bond Ordinance also shall specify
either (i) the particular period or periods of time or
25 manner of determining such period or periods of time
for which each value of such variable interest rate shall
26 remain in effect or (ii) the time or times upon which

any change in such variable interest rate shall become
effective.

“Variable Interest Rate Bonds” means, for any
period of time, any Parity Bonds that bear a Variable
Interest Rate during that period, except that Parity
Bonds shall not be treated as Variable Interest Rate
Bonds if the net economic effect of interest rates on
particular Parity Bonds of an issue and interest rates on
other Parity Bonds of the same issue, as set forth in the
applicable Parity Bond Ordinance, or the net economic
effect of a Payment Agreement with respect to
particular Parity Bonds, in either case is to produce
obligations that bear interest at a fixed interest rate; and
Parity Bonds with respect to which a Payment
Agreement is in force shall be treated as Variable
Interest Rate Bonds if the net economic effect of the
Payment Agreement is to produce obligations that bear
interest at a Variable Interest Rate.

Section 2. Adoption of Plan of Additions. The
CIP constitutes a system or plan of additions or
betterments to or extensions of the Solid Waste System
(the “Plan of Additions”). To the extent not previously
specified, adopted and ordered to be carried out by
ordinance of the City, the City specifies, adopts and
orders to be carried out the Plan of Additions. The
estimated cost of the Plan of Additions, as nearly as
may be determined, is declared to be Fourteen Million
Three Hundred Thirty-One Thousand Dollars
(\$14,331,000) of which up to Eight Million Dollars
(\$8,000,000) is expected to be financed from the
proceeds of the Bonds.

The Plan of Additions shall include any
amendments, updates, supplements or replacements to
the CIP determined by ordinance to constitute a system
or plan of additions to or betterments or extensions of
the Solid Waste System, all of which automatically
shall constitute amendments to the Plan of Additions.
The Plan of Additions also may be modified, without
amending the CIP, to include other improvements if the
City determines by ordinance that those amendments or
other improvements constitute a system or plan of
additions to or betterments or extensions of the Solid
Waste System.

The Plan of Additions includes the purchase and
installation of all materials, supplies, appliances,
equipment and facilities, the acquisition of all permits,
franchises, property and property rights, other capital
assets and all engineering, consulting and other
professional services and studies (whether performed
by the City or by other public or private entities)

1 necessary or convenient to carry out the Plan of
2 Additions.

3 Section 3. Authorization and Description of
4 Bonds. For the purpose of providing all or part of the
5 funds with which to (i) pay part the cost of carrying out
6 the Plan of Additions, (ii) provide for the Reserve
7 Requirement, and (iii) pay the costs of issuing and
8 selling the Bonds, the City shall issue and sell the
9 Bonds in the aggregate principal amount of not to
10 exceed Eight Million Dollars (\$8,000,000). The Bonds
11 may be issued in one or more series; may be combined
12 with other Parity Bonds authorized separately; shall be
13 called "The City of Seattle, Washington, Solid Waste
14 Revenue Bonds, 1999 Series B"; may have such
15 different or further designation or designations as
16 determined by the Finance Director or as the City
17 Council may specify in a resolution or resolutions
18 fixing the terms of and matters relating to the Bonds
19 (collectively, the "Bond Resolution"); shall be dated
20 and shall mature on such date or dates specified in the
21 Bond Resolution, except that the final maturity date of
22 the Bonds shall not extend beyond December 31, 2019;
23 shall be issued in fully registered form; shall be
24 numbered separately in the manner and with any
25 additional designation as the Bond Registrar for the
26 Bonds deems necessary for purposes of identification;
shall bear interest at the rate or rates (computed on the
basis of a 360-day year of twelve 30-day months)
specified in the Bond Resolution, except that the net
interest cost shall not exceed a weighted average rate of
eight percent (8%) per annum, payable at the times
specified in the Bond Resolution; and shall have such
denominations, mature on such dates and be subject to
optional or mandatory redemption, open market
purchase or defeasance on the terms and at the times
specified in the Bond Resolution. The Finance
Director may designate Term Bonds with mandatory
redemption amounts, all to be provided by the Bond
Resolution.

21 The City Council may adopt the Bond Resolution
22 and may provide therein for the matters described in
23 this ordinance, and such other matters that the City
24 Council deems necessary and appropriate to carry out
25 the purposes of this ordinance. Once adopted, the
26 Bond Resolution shall be deemed a part of this
ordinance as if set forth herein.

The Bond Resolution may provide for Qualified
Insurance or a Qualified Letter of Credit, and
conditions or covenants relating thereto, including
additional terms, conditions and covenants relating to

the Bonds that are required by the provider thereof and
are consistent with the provisions of this ordinance,
including but not limited to restrictions on investments
and requirements of notice to and consent of the
insurance or letter of credit provider.

The City Council may determine and specify by
the Bond Resolution the amount, if any, from the
proceeds of or accrued interest on the Bonds to be
deposited into specified funds, subfunds, accounts and
subaccounts. In the absence of such a determination
and specification in the Bond Resolution, the Finance
Director may make such determination and
specification.

The Bond Resolution may approve and authorize
the execution and delivery on behalf of the City of any
contracts consistent with the provisions of this
ordinance for which the City's approval is necessary or
to which the City is a party and that are related or
incidental to the initial issuance and sale of the Bonds,
the initial establishment of the interest rate or rates on
the Bonds, and any redemption of the Bonds, including
but not limited to Payment Agreements and similar
contracts for such purposes.

Section 4. Registration and Transfer or Exchange
of Bonds. The Bonds shall be issued only in registered
form as to both principal and interest and recorded on
the Bond Register. The Bond Register shall contain
the name and mailing address of the registered owner
of each Bond and the principal amount and number of
each of the Bonds held by each registered owner.

Bonds surrendered to the Bond Registrar may be
exchanged for Bonds in any authorized denomination
of an equal aggregate principal amount and of the same
series, interest rate and maturity. Bonds may be
transferred only if endorsed in the manner provided
thereon and surrendered to the Bond Registrar. Any
exchange or transfer shall be without cost to the
registered owner or transferee. The Bond Registrar
shall not be obligated to exchange or transfer any Bond
during the period between a record date and the next
succeeding principal or interest payment or redemption
date.

The City appoints DTC as initial Securities
Depository for the Bonds. For so long as DTC is the
Securities Depository for the Bonds, DTC shall be
deemed to be the registered owner of the Bonds for all
purposes hereunder, and all references in this ordinance
or the Bond Resolution to the registered owners of the
Bonds shall mean DTC or its nominee and shall not

1 mean the owners of any beneficial interests in the
2 Bonds. Payments of principal of and interest on all
3 outstanding Bonds registered in the name of the
nominee of DTC, or its registered assign, shall be made
as provided in the Letter of Representations.

4 Bonds executed and delivered in fully
5 immobilized form shall be executed and delivered in
6 the form of one fully-registered immobilized certificate
7 for each series and maturity of the Bonds representing
8 the aggregate principal amount of the Bonds of that
9 series and maturity, which Bonds shall (except as
10 provided below for the discontinuation or substitution
11 of Securities Depository) be registered in the name of
12 Cede & Co., as nominee of DTC; however, if DTC
13 shall request that the Bonds be registered in the name
14 of a different nominee, the Bond Registrar shall
exchange all or any portion of the Bonds for an equal
aggregate principal amount of Bonds registered in the
name of such other nominee or nominees of DTC. No
person other than DTC or its nominee shall be entitled
to receive from the City or the Bond Registrar any
Bond or any other evidence of ownership of the Bonds,
or any right to receive any payment in respect thereof,
unless DTC or its nominee shall transfer record
ownership of all or any portion of the Bonds on the
Bond Register, in connection with discontinuing the
book entry system as provided below or otherwise.

15 So long as the Bonds are registered in the name of
16 DTC or any nominee thereof, all payments of the
17 principal or interest with respect to the Bonds shall be
18 made to DTC or its nominee in immediately available
19 funds on the dates provided for such payments under
20 this ordinance and the Bond Resolution and at such
21 times and in the manner provided in the Letter of
22 Representations. Each such payment to DTC or its
23 nominee shall be valid and effective to fully discharge
24 all liability of the City or the Bond Registrar with
25 respect to the principal or interest with respect to the
26 Bonds to the extent of the sum or sums so paid. In the
event of the redemption of less than all of the Bonds of
any series and maturity, the Bond Registrar shall not
require surrender by DTC or its nominee of the Bonds
so redeemed, and DTC or its nominee may retain such
Bonds and make an appropriate notation thereon as to
the amount of such partial redemption. DTC shall
deliver to the Bond Registrar, upon request, a written
confirmation of such partial redemption. The records
maintained by the Bond Registrar shall be conclusive
as to the amount of the Bonds of such series and
maturity that have been redeemed.

All transfers of beneficial ownership interests in
Bonds issued in fully immobilized form shall be
effected by the procedures of DTC's participants for
recording and transferring the ownership of beneficial
interests in bonds.

The City and the Bond Registrar may treat DTC
(or its nominee) as the sole and exclusive registered
owner of the Bonds registered in its name for the
purposes of payment of the principal or interest with
respect to those Bonds, selecting Bonds or portions
thereof to be redeemed, giving any notice permitted or
required to be given to registered owners under this
ordinance or the Bond Resolution, registering the
transfer of Bonds, obtaining any consent or other action
to be taken by registered owners of Bonds and for all
other purposes whatsoever; and the City and the Bond
Registrar shall not be affected by any notice to the
contrary. The City and the Bond Registrar shall not
have any responsibility or obligation to any participant
in DTC, any person claiming a beneficial ownership
interest in the Bonds under or through DTC or any such
participant, or any other person which is not shown on
the Bond Register as being a registered owner of
Bonds, with respect to: (1) the Bonds; (2) any records
maintained by DTC or any such participant; (3) the
payment by DTC or any such participant of any amount
in respect of the principal or interest with respect to the
Bonds; (4) any notice which is permitted or required to
be given to registered owners of Bonds under this
ordinance or the Bond Resolution; (5) the selection by
DTC or any such participant of any person to receive
payment in the event of a partial redemption of the
Bonds; or (6) any consent given or other action taken
by DTC as registered owner of the Bonds.

So long as the Bonds are registered in the name of
DTC or any nominee thereof, all notices required or
permitted to be given to the registered owners of such
Bonds under this ordinance or the Bond Resolution
shall be given to DTC as provided in the Letter of
Representations, in form and content satisfactory to
DTC, the City and the Bond Registrar.

In connection with any notice or other
communication to be provided to registered owners
pursuant to this ordinance or the Bond Resolution by
the City or the Bond Registrar with respect to any
consent or other action to be taken by registered
owners of the Bonds, DTC shall consider the date of
receipt of notice requesting such consent or other
action as the record date for such consent or other
action; however, the City or the Bond Registrar may

1 establish a special record date for such consent or other
2 action and shall give DTC notice of such special record
date not less than fifteen (15) calendar days in advance
of such special record date to the extent possible.

3 Any successor Bond Registrar, in its written
4 acceptance of its duties under this ordinance and the
Bond Resolution, shall agree to take any actions
5 necessary from time to time to comply with the
requirements of the Letter of Representations.

6 The book-entry system for registration of the
7 ownership of the Bonds in fully immobilized form may
be discontinued at any time if: (1) after notice to the
8 City and the Bond Registrar, DTC determines to resign
as Securities Depository for the Bonds; or (2) after
9 notice to DTC and the Bond Registrar, the City
determines that a continuation of the system of book-
10 entry transfers through DTC (or through a successor
Securities Depository) is not in the best interests of the
11 City. In each of such events (unless, in the case
described in clause (1) above, the City appoints a
12 successor Securities Depository), the Bonds shall be
delivered in registered certificate form to such persons,
13 and in such maturities and principal amounts, as may
be designated by DTC, but without any liability on the
14 part of the City or the Bond Registrar for the accuracy
of such designation. Whenever DTC requests the City
15 and the Bond Registrar to do so, or whenever the City
requests DTC and the Bond Registrar to do so after the
16 determination by the City to replace DTC with a
successor Securities Depository, the City and the Bond
17 Registrar shall cooperate with DTC in taking
appropriate action after reasonable notice to arrange for
18 another Securities Depository to maintain custody of
certificates evidencing the Bonds.

19 Section 5. Mutilated, Lost, Stolen and Destroyed
20 Bonds. In case any Bonds issued hereunder shall
become mutilated or be destroyed, stolen or lost, the
21 City may, if not then prohibited or otherwise required
by law, cause to be executed and delivered a new Bond
22 of like amount, series, interest rate, maturity date and
tenor in exchange and substitution for and upon
23 cancellation of such mutilated Bonds, or in lieu of and
in substitution for such destroyed, stolen or lost Bonds,
24 upon payment by the registered owner thereof of the
reasonable expenses and charges of the City and the
25 Bond Registrar in connection therewith, and in the case
of a Bond destroyed, stolen or lost, the filing with the
26 Bond Registrar of evidence satisfactory to the City that
such Bond was destroyed, stolen or lost, and of the
ownership thereof, and furnishing the City and the

Bond Registrar with indemnity satisfactory to each of
them. If the mutilated, destroyed, stolen or lost Bond
already has matured or been called for redemption in
accordance with its terms it shall not be necessary to
issue a new Bond prior to payment.

Section 6. Payment of Bond Principal and
Interest. Principal of, premium, if any, and interest on
the Bonds shall be payable in lawful money of the
United States of America. Interest on the Bonds shall
be paid by checks or drafts mailed by the Bond
Registrar on the interest payment date to the registered
owners at the addresses appearing on the Bond
Register on the fifteenth day of the month preceding the
interest payment date (or other record date established
in the Bond Resolution, the "Record Date") or, at the
request of the registered owner of One Million Dollars
(\$1,000,000) or more in aggregate principal amount of
Bonds, by wire transfer to an account in the United
States designated in writing by such registered owner
prior to the Record Date. Principal of and premium, if
any, on the Bonds shall be payable upon presentation
and surrender of the Bonds by the registered owners at
either of the principal offices of the Bond Registrar at
the option of the registered owners. Notwithstanding
the foregoing, payment of any Bonds registered in the
name of DTC or its nominee, shall be made in
accordance with the Letter of Representations.

The Bonds shall be payable solely out of the Bond
Account and shall not be general obligations of the
City.

Section 7. Redemption and Open Market
Purchase of Bonds.

(a) Optional Redemption. All or some of the
Bonds may be subject to redemption at the option of
the City at the times and on the terms set forth in the
Bond Resolution.

(b) Mandatory Redemption. The City shall
redeem any Term Bonds, if not redeemed under the
optional redemption provisions set forth in the Bond
Resolution or purchased in the open market under the
provisions set forth below, by lot (or in such other
manner as the Bond Registrar shall determine) at par
plus accrued interest on the dates and in the years and
principal amounts as set forth in the Bond Resolution.

If the City redeems Term Bonds under the optional
redemption provisions set forth in the Bond Resolution
or purchases Term Bonds in the open market as set
forth below, the Term Bonds so redeemed or purchased

1 (irrespective of their redemption or purchase price)
2 shall be credited at the par amount thereof against the
3 remaining mandatory redemption requirements in a
manner to be determined by the Finance Director or, if
no such determination is made, on a pro-rata basis.

4 (c) Partial Redemption. Whenever less than all
5 of the Bonds of a single maturity are to be redeemed,
6 the Bond Registrar shall select the Bonds or portions
7 thereof to be redeemed from the Bonds of that maturity
8 by lot, or in such other manner as the Bond Registrar
9 shall determine, except that, so long as the Bonds are
registered in the name of DTC or its nominee, DTC
shall select the Bonds or portions thereof to be
redeemed in accordance with the Letter of
Representations. In no event shall any Bond be
outstanding in a principal amount that is not an
authorized denomination.

10 Portions of the principal amount of any Bond, in
11 integral multiples of Five Thousand Dollars (\$5,000),
12 may be redeemed. If less than all of the principal
13 amount of any Bond is redeemed, upon surrender of
14 that Bond at either of the principal offices of the Bond
15 Registrar, there shall be issued to the registered owner,
without charge therefor, a new Bond (or Bonds, at the
option of the registered owner) of the same series,
maturity and interest rate in any of the denominations
authorized by the Bond Resolution in the aggregate
total principal amount remaining unredeemed.

16 (d) Open Market Purchase. The City reserves the
17 right and option to purchase any or all of the Bonds in
18 the open market at any time at any price acceptable to
19 the City plus accrued interest to the date of purchase.
20 The principal amount of Term Bonds purchased
pursuant to this Section 6 shall be credited at the par
amount thereof against the next mandatory redemption
requirement that is at least sixty (60) days after the date
of purchase, or as otherwise directed by the Finance
Director.

21 (e) Bonds to be Canceled. All Bonds purchased
or redeemed under this Section 6 shall be canceled.

22 Section 8. Notice of Redemption. The City shall
23 cause notice of any intended redemption of Bonds to be
24 given not less than thirty (30) nor more than sixty (60)
25 days prior to the date fixed for redemption by first-class
26 mail, postage prepaid, to the registered owner of any
Bond to be redeemed at the address appearing on the
Bond Register at the time the Bond Registrar prepares
the notice, and the requirements of this sentence shall
be deemed to have been fulfilled when notice has been

mailed as so provided, whether or not it is actually
received by the registered owner of any Bond. Interest
on Bonds called for redemption shall cease to accrue
on the date fixed for redemption unless the Bond or
Bonds called are not redeemed when presented
pursuant to the call. In addition, the redemption notice
shall be mailed by the Bond Registrar within the same
period, postage prepaid, to the Rating Agencies at their
offices in New York, New York, or their successors, to
any bond insurer for the Bonds, and to such other
persons and with such additional information as the
Finance Director shall determine or as specified in the
Bond Resolution, but these additional mailings shall
not be a condition precedent to the redemption of
Bonds.

Section 9. Failure to Redeem Bonds. If any Bond
is not redeemed when properly presented at its maturity
or call date, the City shall be obligated to pay interest
on that Bond at the same rate provided in the Bond
from and after its maturity or call date until that Bond,
principal, premium, if any, and interest, is paid in full
or until sufficient money for its payment in full is on
deposit in the Bond Account and the Bond has been
called for payment by giving notice of that call to the
registered owner of each of those unpaid Bonds.

Section 10. Form and Execution of Bonds. The
Bonds shall be typed, photocopied, printed or
lithographed on good bond paper in a form consistent
with the provisions of this ordinance, the Bond
Resolution and State law, shall be signed by the Mayor
and Finance Director, either or both of whose
signatures may be manual or in facsimile, and the seal
of the City or a facsimile reproduction thereof shall be
impressed or printed thereon.

Only Bonds bearing a Certificate of Authentication
in substantially the following form, manually signed by
the Bond Registrar, shall be valid or obligatory for any
purpose or entitled to the benefits of this ordinance:

1 CERTIFICATE OF AUTHENTICATION

2 This Bond is one of the fully registered
3 The City of Seattle, Washington, Solid Waste
4 Revenue Bonds, 1999, Series B, described in
the Bond Ordinance.

5 WASHINGTON STATE FISCAL AGENCY
6 Bond Registrar

7 By: _____
8 Authorized Signer

9 The authorized signing of a Certificate of
10 Authentication shall be conclusive evidence that the
11 Bond so authenticated has been duly executed,
12 authenticated and delivered and is entitled to the
13 benefits of this ordinance.

14 If any officer whose facsimile signature appears on
15 the Bonds ceases to be an officer of the City authorized
16 to sign bonds before the Bonds bearing his or her
17 facsimile signature are authenticated or delivered by
18 the Bond Registrar or issued by the City, those Bonds
19 nevertheless may be authenticated, delivered and issued
20 and, when authenticated, issued and delivered, shall be
21 as binding on the City as though that person had
22 continued to be an officer of the City authorized to sign
23 bonds. Any Bond also may be signed on behalf of the
24 City by any person who, on the actual date of signing
25 of the Bond, is an officer of the City authorized to sign
26 bonds, although he or she did not hold the required
office on the date of issuance of the Bonds.

Section 11. Bond Registrar. The Bond Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient books for the registration and transfer of the Bonds which shall be open to inspection by the City at all times. The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver Bonds transferred or exchanged in accordance with the provisions of the Bonds and this ordinance, to serve as the City's paying agent for the Bonds and to carry out all of the Bond Registrar's powers and duties under this ordinance and SMC Chapter 5.10 establishing a system of registration for the City's bonds and obligations, as that chapter now exists or may be amended. The City reserves the right in its discretion to appoint special paying agents, registrars or trustees in connection with the payment of some or all

of the principal of or interest on the Bonds. If a new Bond Registrar is appointed by the City, notice of the name and address of the new Bond Registrar shall be mailed to the registered owners of the Bonds. The notice may be mailed together with the next interest payment due on the Bonds, but, to the extent practicable, shall be mailed not less than fifteen (15) days prior to a maturity date of the principal of any Bond.

The Bond Registrar shall be responsible for its representations contained in the Bond Registrar's Certificate of Authentication on the Bonds. The Bond Registrar may become the registered owner of Bonds with the same rights it would have if it were not the Bond Registrar and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as members of, or in any other capacity with respect to, any committee formed to protect the rights of the registered owners of the Bonds.

Section 12. Finding of Sufficiency of Gross Revenue. The City Council finds and determines that the issuance and sale of the Bonds is in the best interest of the City and in the public interest. In making such finding and determination, the City Council has had due regard to the cost of operation and maintenance of the Solid Waste System and to any portion of the Gross Revenue pledged for the payment of any bonds, warrants or other indebtedness. The Gross Revenue, at the rates charged and to be charged from time to time upon the Solid Waste System consistent with Section 15(a) hereof, will be sufficient, in the judgment of the City Council, to meet all Maintenance and Operation Expenses and to provide the amounts previously pledged to pay and secure the payment of the principal of and interest on all outstanding obligations that are payable out of such Gross Revenue and the principal and interest on the Bonds authorized herein.

Section 13. Security for Parity Bonds.

(a) Pledge of Net Revenue. The Bonds shall be special limited obligations of the City payable from and secured solely by the Net Revenue and by money in the Bond Account, including the Reserve Subaccount. The Net Revenue is pledged to make the payments into the Bond Account and the Reserve Subaccount required by paragraphs (b) and (c) of this Section 13, which pledge shall constitute a lien and charge upon such Net Revenue prior and superior to all other liens and charges whatsoever.

1 The Bonds shall not in any manner or to any extent
2 constitute general obligations of the City, the State or
3 any political subdivision of the State or a lien or charge
4 upon any general fund or upon any money or other
property of the City, the State or any political
subdivision of the State not specifically pledged thereto
by this ordinance.

5 (b) Bond Account; Principal and Interest
6 Subaccount. A special account of the City known as
7 the "Bond Account" has been created and shall be
8 maintained as a separate account within the Solid
9 Waste Fund, for the sole purpose of paying the
10 principal of and premium, if any, and interest on the
11 Parity Bonds as the same shall become due. The Bond
12 Account consists of the Principal and Interest
13 Subaccount and the Reserve Subaccount and such
14 additional subaccounts as the Finance Director may
15 deem necessary. The Parity Bonds shall be payable,
16 principal, premium, if any, and interest, out of the Bond
17 Account.

18 From and after the issuance of the Bonds, and so
19 long thereafter as any Parity Bonds are outstanding
20 against the Bond Account (including any Payment
21 Agreement Payments required to be made under any
22 Parity Payment Agreements), the Finance Director
23 shall set aside and pay into the Principal and Interest
24 Subaccount on or prior to the respective dates on which
25 the interest on or principal of and interest on the Parity
26 Bonds shall become due and payable certain fixed
amounts out of the Net Revenue sufficient to pay such
interest or principal and interest as the same shall
become due.

Money in the Principal and Interest Subaccount
shall, to the fullest extent practicable and reasonable,
be invested and reinvested at the direction of the
Finance Director solely in, and obligations deposited in
such accounts shall consist of, Permitted Investments.
Earnings on money and investments in the Principal
and Interest Subaccount shall be deposited in and used
for the purposes of that subaccount.

(c) Reserve Subaccount.

(i) Creation; Investment. The Reserve
Subaccount has been created and maintained as a
subaccount within the Bond Account for the purpose of
securing the payment of the principal of and interest on
all Parity Bonds outstanding (including amounts due
under any Parity Payment Agreements if required
under such agreement).

Money held in the Reserve Subaccount shall, to
the fullest extent practicable and reasonable, be
invested and reinvested at the direction of the Finance
Director solely in, and obligations deposited in such
accounts shall consist of, Permitted Investments.
Earnings on money and investments in the Reserve
Subaccount shall be deposited in that fund and credited
against amounts required to be deposited therein until
the Reserve Subaccount is fully funded, and thereafter
such earnings shall be deposited in the Principal and
Interest Subaccount.

(ii) Funding of Reserve Requirement.

(A) The City shall provide in the Bond
Resolution with respect to the Bonds or in the Parity
Bond Ordinance or resolution authorizing the issuance
of any Future Parity Bonds for the deposit into the
Reserve Subaccount out of the Net Revenue (or out of
any other funds of the City on hand and legally
available therefor, including proceeds of the Bonds or
of the Future Parity Bonds being issued or any other
Future Parity Bonds) of periodic payments so that by
five (5) years from the date of such Future Parity
Bonds there will have been paid into the Reserve
Subaccount an amount which, together with the money
already on deposit therein, will be at least equal to the
Reserve Requirement for all Parity Bonds outstanding
at the end of that five-year period.

(B) Notwithstanding the foregoing, the
Bond Resolution or any Parity Bond Ordinance may
provide for the City to obtain Qualified Insurance or a
Qualified Letter of Credit for specific amounts required
to be paid into the Reserve Subaccount. The amount
available to be drawn upon under such Qualified
Insurance or Qualified Letter of Credit shall be credited
against the amounts required to be maintained in the
Reserve Subaccount by Section 13(c)(ii)(A).

(C) Such Qualified Letter of Credit or
Qualified Insurance shall not be cancelable on less than
three (3) years' notice. If the City receives any such
notice of cancellation, the City shall substitute
Qualified Insurance or a Qualified Letter of Credit in
the amount required pursuant to Section 13(c)(ii)(B) or
in the alternative shall create a special account in the
Solid Waste Fund and deposit therein, on or before the
twenty-fifth (25th) day of each of the thirty-six
(36) succeeding calendar months, one thirty-sixth
(1/36th) of the amount sufficient, together with other
money and investments on deposit in the Reserve
Subaccount, to equal the Reserve Requirement on the
date any such cancellation shall become effective.

1 Such amounts shall be transferred from money in the
2 Solid Waste Fund (after making provision for payment
3 of Maintenance and Operation Expenses and for the
4 required payments into the Principal and Interest
5 Subaccount). Amounts on deposit in such special
6 account shall not be available to pay debt service on
Parity Bonds or for any other purpose of the City, and
shall be transferred to the Reserve Subaccount on the
effective date of any cancellation of a Qualified Letter
of Credit or Qualified Insurance to make up the
deficiency caused thereby.

7 (D) If the amount in the Reserve
8 Subaccount shall be less than the Reserve Requirement
9 (taking into account the five (5) year period referred to
10 in Section 13(c)(ii)(A), the City shall transfer to the
11 Reserve Subaccount money in an amount sufficient to
12 restore the Reserve Subaccount to the Reserve
13 Requirement within twelve (12) months after the date
14 of such deficiency. The City shall transfer such
amounts from money in the Solid Waste Fund (after
making provision for payment of Maintenance and
Operation Expenses and for the required payments into
the Principal and Interest Subaccount). If the amount
in the Reserve Subaccount shall be greater than the
Reserve Requirement, then and only then may the City
withdraw such excess from the Reserve Subaccount
and deposit such excess in the Solid Waste Fund to be
used for any lawful purpose.

15 (iii) Use of Reserve Subaccount for
16 Refunding Bonds. If any Parity Bonds are refunded,
17 the money set aside in the Reserve Subaccount to
18 secure the payment of such Parity Bonds may be used
19 to retire such Parity Bonds or may be transferred to any
20 Reserve Subaccount or account which may be created
to secure the payment of any bonds issued to refund
such Parity Bonds, as long as the money left remaining
in the Reserve Subaccount is at least equal, together
with any Qualified Insurance or Qualified Letters of
Credit, to the Reserve Subaccount Requirement.

21 (iv) Use of Reserve Subaccount for Payment
22 of Debt Service. If the money in the Principal and
23 Interest Subaccount is insufficient to meet maturing
24 installments of either interest on or principal of and
25 interest on the Parity Bonds payable out of the Bond
26 Account (including amounts payable under any Parity
Payment Agreement), such deficiency shall be made up
from the Reserve Subaccount by the withdrawal of
money or proceeds of Qualified Insurance or Qualified
Letters of Credit therefrom, as the case may be. Any
deficiency created in the Reserve Subaccount by reason

of any such withdrawal or claim against Qualified
Insurance or a Qualified Letter of Credit shall then be
made up out of the Net Revenue, after making
necessary provision for the payments required to be
made for debt service on any outstanding Parity Bonds
consistent with Section 14 hereof.

(v) Withdrawals From Reserve Subaccount.
Money in the Reserve Subaccount may be withdrawn
by the City for any lawful purpose as long as the
aggregate of any money, Qualified Insurance and
Qualified Letters of Credit left remaining on deposit in
the Reserve Subaccount is at least equal to the Reserve
Requirement for the Parity Bonds then outstanding.

The City reserves the right to substitute Qualified
Insurance or a Qualified Letter of Credit for money
previously deposited in the Reserve Subaccount and to
withdraw such money to the extent described in the
preceding paragraph.

Any withdrawals from subaccounts within the
Reserve Subaccount shall be made on a pro rata basis
except when the provider of a Qualified Letter of
Credit or Qualified Insurance requires all cash and
investments in the Reserve Subaccount to be
withdrawn before draws on the Qualified Letter of
Credit or Qualified Insurance, or unless the City
receives an opinion of Bond Counsel to the effect that
such pro rata withdrawal is not required to maintain the
exclusion of interest on the Parity Bonds then
outstanding from gross income for federal income tax
purposes.

Section 14. Flow of Funds. The Gross Revenue
of the Solid Waste System shall be used for the
following purposes only and shall be applied in the
following order of priority:

(a) To pay Maintenance and Operations
Expenses;

(b) To pay interest on Parity Bonds and Payment
Agreement Payments when due;

(c) To pay the principal of Parity Bonds as it
comes due at maturity or as the principal is required to
be paid pursuant to mandatory redemption
requirements applicable to Term Bonds;

(d) To make all payments required to be made
into the Reserve Subaccount;

(e) To make all payments required to be made
into any revenue bond, note, warrant or other revenue
obligation redemption fund, debt service account or

1 reserve account created to pay or secure the payment of
2 the principal of and interest on any revenue bonds,
3 notes, warrants or other obligations of the City having a
lien upon the Net Revenue junior and inferior to the
lien thereon for the payment of the principal of and
interest on the Parity Bonds; and

4 (f) To retire by redemption or purchase in the
5 open market any outstanding revenue bonds or other
6 revenue obligations of the Solid Waste System, to
7 make necessary additional betterments, improvements
and repairs to or extensions and replacements of Solid
Waste System, to make deposits into the Rate
Stabilization Account, or for any other lawful purposes
of the Solid Waste System.

8 The City may transfer any money from any funds
9 or accounts of the Solid Waste System legally available
therefor, except bond redemption funds, refunding
10 escrow funds or defeasance funds, to meet the required
payments to be made into the Bond Account.

11 Section 15. Parity Bond Covenants.

12 (a) Establishment and Collection of Rates and
13 Charges. The City will establish, maintain and collect
rates and charges for services and facilities provided by
the Solid Waste System and will adjust those rates and
charges from time to time so that:

14 (i) Gross Revenue will be sufficient to (A)
15 pay all Maintenance and Operation Expenses, (B) pay
when due all amounts that the City is obligated to pay
into the Bond Account and the subaccounts therein,
16 and (C) pay all taxes, assessments or other
governmental charges lawfully imposed on the Solid
Waste System or the revenue therefrom or payments in
17 lieu thereof and any and all other amounts which the
City may now or hereafter become obligated to pay
18 from the Gross Revenue by law or contract; and

19 (ii) Adjusted Net Revenue in each fiscal year
20 will be at least equal to the Coverage Requirement; and

21 (iii) Except to aid the poor or infirm, it will
22 not furnish or supply or permit the furnishing or
supplying of any service or facility in connection with
the operation of the Solid Waste System free of charge
23 to any person, firm or corporation, public or private.

24 The failure of the City to comply with
25 subparagraphs (i) and (ii) of this Section 15(a) shall not
be an Event of Default under this ordinance if the City
promptly retains a Professional Utility Consultant to
26 recommend to the City Council adjustments in the rates

of the Solid Waste System necessary to meet the
requirements of those subparagraphs and if the City
Council adopts the recommended modifications within
one hundred eighty (180) days of the date the failure
became known to the City Council.

(b) Maintenance and Operation of the Solid
Waste System. The City will operate the properties of
the Solid Waste System in an efficient manner and at a
reasonable cost, and will maintain, preserve and keep,
or cause to be maintained, preserved and kept, the
properties of the Solid Waste System in good repair,
working order and condition; and from time to time
will make or cause to be made all necessary and proper
repairs, renewals and replacements thereto so that at all
times the business carried on in connection therewith
will be properly and advantageously conducted.

(c) Liens Upon the Solid Waste System. Except
as otherwise provided in this ordinance, it will not at
any time create or permit to accrue or to exist any lien
or other encumbrance or indebtedness upon the Gross
Revenue or any part thereof, prior or superior to the
lien thereon for the payment of the Parity Bonds, and
will pay and discharge, or cause to be paid and
discharged, any and all lawful claims for labor,
materials or supplies which, if unpaid, might become a
lien or charge upon the Gross Revenue or any part
thereof, prior or superior to, or on a parity with, the lien
of the Parity Bonds, or which might impair the security
of the Parity Bonds.

(d) Books and Accounts. It will keep proper
books, records and accounts with respect to the
operations, income and expenditures of the Solid
Waste System in accordance with generally accepted
accounting practices applicable to governmental
utilities and any applicable rules and regulations
prescribed by the State. The City will prepare or cause
to be prepared annual financial and operating
statements as soon as practicable after the close of each
fiscal year showing in reasonable detail the financial
condition of the Solid Waste System as of the close of
the previous year, and the income and expenses for
such year, including the amounts paid into the Bond
Account and into any and all special funds or accounts
created pursuant to the provisions of this ordinance, the
status of all funds and accounts as of the end of such
year, and the amounts expended for maintenance,
renewals, replacements and capital additions to the
Solid Waste System. A copy of such annual financial
statements shall be sent to any owner of Parity Bonds
upon written request therefor being made to the City.

1 The City may charge a reasonable cost for providing
2 such financial statements.

3 (e) Collection of Delinquent Accounts. On at
4 least an annual basis, it will determine all accounts that
5 are delinquent and will take such actions as the City
6 determines are reasonably necessary to enforce
7 payment of those delinquent accounts.

8 (f) Maintenance of Insurance. It at all times will
9 carry fire and extended coverage, public liability and
10 property damage and such other forms of insurance
11 with responsible insurers and with policies payable to
12 the City on such of the buildings, equipment, works,
13 plants, facilities and properties of the Solid Waste
14 System as are ordinarily carried by municipal or
15 privately owned utilities engaged in the operation of the
16 like systems, and against such claims for damages as
17 are ordinarily carried by municipal or privately owned
18 utilities engaged in the operation of like systems, or, in
19 the City's sole discretion, it will self-insure or will
20 participate in an insurance pool or pools with reserves
21 adequate, in the reasonable judgment of the City, to
22 protect the Solid Waste System against loss.

23 (g) Condemnation Awards and Insurance
24 Proceeds. If the City receives any condemnation
25 awards or proceeds of an insurance policy in
26 connection with any loss of or damage to any property
of the Solid Waste System, it shall apply the
condemnation award or insurance proceeds, in the
City's sole discretion, either to (i) to the cost of
replacing or repairing the lost or damaged properties,
(ii) to the payment, purchase or redemption of Parity
Bonds, or (iii) to the cost of improvements to the Solid
Waste System.

(h) Sale of System. The City will sell, transfer or
otherwise dispose of all or any part of the works, plant,
properties, facilities or other component of the Solid
Waste System or any real or personal property
comprising a part of the Solid Waste System only
consistent with one or more of the following:

(i) The City in its discretion may carry out
such a sale, transfer or disposition (each, as used in
this Section 15(h), a "transfer") if the facilities or
property transferred are not material to the
operation of the Solid Waste System, or shall have
become unserviceable, inadequate, obsolete or
unfit to be used in the operation of the Solid Waste
System or are no longer necessary, material or
useful to the operation of the Solid Waste System;
or

(ii) The City in its discretion may carry out
such a transfer if the aggregate depreciated cost
value of the facilities or property being transferred
under this subparagraph (2) in any fiscal year
comprises no more than five percent (5%) of the
total assets of the Solid Waste System; or

(iii) The City in its discretion may carry out
such a transfer if the proceeds from such transfer
are used to acquire new useful operating facilities
or properties of the Solid Waste System, or are
used to retire outstanding Parity Bonds or other
revenue obligations of the Solid Waste System, if,
at the time of such transfer, there is on file with
the City Clerk a certificate of a Professional Utility
Consultant demonstrating that in his or her
professional opinion, upon such transfer and the
use of proceeds of the transfer as proposed by the
City, the remaining facilities of the Solid Waste
System will retain their operational integrity and,
based on the financial statements for the most
recent fiscal year available, the proposed transfer
would not prevent the Solid Waste System from
complying with the rate covenants contained in
Section 15(a) during the five fiscal years following
the fiscal year in which the transfer is to occur.
The Professional Utility Consultant shall take into
account, (A) the reduction in revenue and
expenses, if any, resulting from the transfer;
(B) the use of any proceeds of the transfer for the
redemption of Parity Bonds, (C) the Professional
Utility Consultant's estimate of revenue from
customers anticipated to be served by any
additions to and betterments and extensions of the
Solid Waste System financed in part by the
proposed portion of the proceeds of the transfer,
and (D) any other adjustment permitted in the
preparation of a certificate under Section 16(a)(ii)
of this ordinance. Before such a transfer, the City
also must obtain confirmation from each of the
Rating Agencies to the effect that the rating then in
effect will not be reduced or withdrawn upon such
transfer.

Section 16. Issuance of Future Parity Bonds.

(a) General. Except as provided in Section 16(b)
of this ordinance for the issuance of Refunding Parity
Bonds, Future Parity Bonds may be issued (and Parity
Payment Agreements may be entered into), from time
to time in one or more series for any lawful purpose of
the Solid Waste System, only if at the time of the
delivery of each series of Future Parity Bonds to the

1 initial purchasers thereof (or on the effective date of the
2 Parity Payment Agreement):

3 (i) There is no deficiency in the Bond
4 Account or in any of the accounts therein and provision
5 has been made to meet the Reserve Requirement for all
6 Parity Bonds then outstanding plus such proposed
7 series of Future Parity Bonds; and

8 (ii) There shall have been filed with the City
9 either:

10 (A) A certificate of both the Finance
11 Director and the Director of Seattle Public Utilities
12 demonstrating that during any twelve consecutive
13 calendar months out of the immediately preceding
14 twenty-four (24) calendar months Adjusted Net
15 Revenue was at least equal to the Coverage
16 Requirement of all Parity Bonds plus the Future Parity
17 Bonds proposed to be issued (and assuming that the
18 debt service of the proposed Future Parity Bonds for
19 that twelve month period was the average Annual Debt
20 Service for those proposed bonds); or

21 (B) a certificate of both the Finance
22 Director and the Director of Seattle Public Utilities (or
23 any officer who succeeds to substantially all of the
24 responsibilities of either office) that in their opinion the
25 Adjusted Net Revenue for the five fiscal years next
26 following the earlier of (i) the end of the period during
which interest on those Future Parity Bonds is to be
capitalized or, if no interest is capitalized, the fiscal
year in which the Future Parity Bonds are issued, or
(ii) the date on which the substantially all new facilities
financed with those Future Parity Bonds are expected
to commence operations, such Adjusted Net Revenue
further adjusted as provided in paragraphs (w) through
(z) below, will be at least equal to the Coverage
Requirement. That certificate may take into account
the following adjustments.

(w) Any changes in rates in
effect and being charged, or rates expected to be
charged in accordance with a program of specific rates,
rate levels or increases in overall rate revenue approved
by ordinance or resolution;

(x) Net revenue from
customers of the Solid Waste System who have
become customers during the twelve (12) consecutive
month period or thereafter, and their estimate of net
revenue from any customers to be connected to the
Solid Waste System who have paid the required

connection charges, adjusted to reflect one year's net
revenue from those customers.

(y) Their estimate of net
revenue from customers anticipated to be served by
facilities or improvements financed in substantial part
by those Future Parity Bonds (or additional Parity
Bonds expected to be issued during the five-year
period); and

(z) Net revenue from any
person, firm, corporation or municipal corporation
under any executed contract for Solid Waste disposal
or other utility service, which revenue was not included
in the historical Net Revenue of the Solid Waste
Utility.

(b) Issuance of Refunding Parity Bonds.

(i) Without complying with the provisions of
Section 16(a) of this ordinance, the City may at any
time and from time to time issue one or more series of
Refunding Parity Bonds, but only if there shall have
been filed with the City a certificate of the Finance
Director stating that immediately after the issuance of
such Refunding Parity Bonds the Annual Debt Service
in any calendar year that Parity Bonds (other than such
Refunding Parity Bonds) are then outstanding shall not
be increased by more than Five Thousand Dollars
(\$5,000) by reason of the issuance of such Refunding
Parity Bonds.

(ii) Parity Bonds of any one or more series or
one or more maturities within a series may be refunded
by a single series of Refunding Parity Bonds, which
Parity Bonds to be refunded shall be specified in the
Parity Bond Ordinance providing for the issuance of
the Refunding Parity Bonds, and the principal amount
of such Refunding Parity Bonds may include amounts
necessary to pay the principal of the Parity Bonds to be
refunded, interest thereon to the date of payment or
redemption thereof, any premium payable thereon upon
such payment or redemption, the costs of issuance of
such Refunding Parity Bonds and an amount, if any,
required to fund the Reserve Requirement. The
proceeds of the Refunding Parity Bonds shall be held
and applied in such manner as is provided in the Parity
Bond Ordinance providing for the issuance of such
Refunding Parity Bonds, so that upon the delivery of
such Refunding Parity Bonds the Parity Bonds to be
refunded thereby shall be deemed to be no longer
outstanding in accordance with the provisions of the
Parity Bond Ordinance providing for the issuance of
those bonds.

1 (iii) Refunding Parity Bonds may also be
2 issued upon compliance with the provisions of
Section 16(a) of this ordinance.

3 (iv) Nothing contained in this ordinance shall
4 prohibit or prevent, or be deemed or construed to
5 prohibit or prevent, the City from issuing Refunding
6 Parity Bonds to fund or refund maturing Parity Bonds
of the City for the payment of which money is not
otherwise available without complying with this
Section 16.

7 (c) No Limitation on Junior Lien Bonds. Nothing
8 in this ordinance shall prevent the City from issuing
revenue bonds or other obligations having a lien and
charge on the Net Revenue subordinate to the lien and
charge of the Parity Bonds.

9 Section 17. Rate Stabilization Account. There has
10 been created in the Solid Waste Fund a separate
11 account known as the Rate Stabilization Account. The
12 City may at any time, as determined by the City and as
13 consistent with Section 14, deposit in the Rate
14 Stabilization Account Gross Revenue and any other
15 money received by the System and available to be used
16 therefor. The City may withdraw any or all of the
money from the Rate Stabilization Account for
inclusion in the Adjusted Gross Revenue for any fiscal
year of the City. Such deposits or withdrawals may be
made up to an including the date ninety (90) days after
the end of the fiscal year for which the deposit or
withdrawal will be included as Adjusted Gross
Revenue.

17 No deposit of Gross Revenue shall be made into
18 the Rate Stabilization Account to the extent that such
deposit would prevent the City from meeting the
Coverage Requirement in the relevant fiscal year.

19 Section 18. Separate Utility Systems. The City
20 may create, acquire, construct, finance, own and
21 operate one or more additional systems for solid waste
22 collection, transportation, treatment or disposal, or
23 other commodity or service related to the Solid Waste
24 System. The revenue of that separate utility system
25 shall not be included in the Gross Revenue of the Solid
26 Waste System and may be pledged to the payment of
revenue obligations issued to purchase, construct,
condemn or otherwise acquire or expand the separate
utility system. Neither the Gross Revenue nor the Net
Revenue of the Solid Waste System shall be pledged
by the City to the payment of any obligations of a
separate utility system except (1) as a Contract
Resource Obligation upon compliance with Section 19

hereof and/or (2), with respect to the Net Revenue, on a
basis subordinate to the lien of the Parity Bonds on that
Net Revenue.

Section 19. Contract Resource Obligations. The
City may at any time enter into one or more Contract
Resource Obligations for the acquisition, from facilities
to be constructed, of solid waste collection,
transportation, treatment or disposal, or other
commodity or service relating to the Solid Waste
System. The City may determine that, and may agree
under a Contract Resource Obligation to provide that,
all payments under that Contract Resource Obligation
(including payments prior to the time that the solid
waste collection, transportation, treatment or disposal
or other commodity or service is being provided, or
during a suspension or after termination of commodity
or service) shall be Maintenance and Operation
Expenses if the following requirements are met at the
time such a Contract Resource Obligation is entered
into:

(a) No event of default under a Parity Bond
Ordinance has occurred and is continuing.

(b) There shall be on file a certificate of an
Professional Utility Consultant stating that (i) the
payments to be made by the City in connection with
the Contract Resource Obligation are reasonable for the
commodities provided or services rendered; (ii) the
source of any new commodities or services, and any
facilities to be constructed to provide the commodities
or services, are sound from a solid waste collection,
transportation, treatment and disposal, or other
commodity or service planning standpoint, are
technically and economically feasible in accordance
with prudent utility practice, and are likely to provide
commodities or services no later than a date set forth
in the Professional Utility Consultant's certification;
and (iii) the Adjusted Net Revenue (further adjusted
by the Professional Utility Consultant's estimate of the
payments to be made in accordance with the Contract
Resource Obligation) for the five fiscal years following
the year in which the Contract Resource Obligation is
incurred, as such Adjusted Net Revenue is estimated
by the Professional Utility Consultant in accordance
with the provisions of and adjustments permitted in
Section 16(a)(ii) of this ordinance, will be at least
equal to the Coverage Requirement.

Payments required to be made under Contract
Resource Obligations shall not be subject to

1 acceleration. Nothing in this Section 19 shall be
2 deemed to prevent the City from entering into other
3 agreements for the acquisition of solid waste collection,
4 transportation, treatment or disposal, or other
5 commodity or service, from existing facilities and from
6 treating those payments as Maintenance and Operation
7 Expenses. Nothing in this Section 19 shall be deemed
8 to prevent the City from entering into other agreements
9 for the acquisition of solid waste collection,
10 transportation, treatment or disposal, or other
11 commodity or service, from facilities to be constructed
12 and from agreeing to make payments with respect
13 thereto, such payments constituting a lien and charge
14 on Net Revenue subordinate to that of Parity Bonds.

15 Section 20. Preservation of Tax Exemption for
16 Interest on Bonds. The City covenants that it will take
17 all actions consistent with the terms of the Bonds, this
18 ordinance and the Bond Resolution, reasonably within
19 its power and necessary to prevent interest on the
20 Bonds from being included in gross income for federal
21 income tax purposes, and it will neither take any action
22 nor make or permit any use of proceeds of the Bonds or
23 other funds of the City treated as proceeds of the Bonds
24 at any time during the term of the Bonds which will
25 cause interest on the Bonds to be included in gross
26 income for federal income tax purposes.

The City has not been notified of any listing or
proposed listing by the Internal Revenue Service to the
effect that it is a bond issuer whose arbitrage
certifications may not be relied upon.

Section 21. Continuing Disclosure. The City shall
undertake to provide for the benefit of holders of the
Bonds disclosure of certain financial information and
operating data of the type included in the final official
statement for the Bonds, as well as disclosure of certain
material events respecting the Bonds, in the manner
and to the extent required by United States Securities
and Exchange Commission Rule 15c2-12(b)(5). The
particular terms of the Undertaking shall be set forth in
the Bond Resolution.

Section 22. Refunding or Defeasance of Bonds.

The City may issue refunding bonds pursuant to
the laws of the State or use money available from any
other lawful source to pay when due the principal of
and premium, if any, and interest on the Bonds, or any
portion thereof included in a refunding or defeasance
plan, and to redeem and retire, release, refund or
defease those Bonds (the "defeased Bonds") and to pay
the costs of such refunding or defeasance. If money
and/or Government Obligations sufficient in amount,

together with known earned income from the
investments thereof, to redeem and retire, release,
refund or defease the defeased Bonds in accordance
with their terms, are set aside in a special trust fund or
escrow account irrevocably pledged to that redemption,
retirement or defeasance (the "trust account"), then all
right and interest of the owners of the defeased Bonds
in the covenants of this ordinance and in the Gross
Revenue and the funds and accounts pledged to the
payment of the defeased Bonds, other than the right to
receive the funds so set aside and pledged, thereafter
shall cease and become void. Such owners thereafter
shall have the right to receive payment of the principal
of and interest or redemption price on the defeased
Bonds from the trust account. The City shall include in
the refunding or defeasance plan such provisions as the
City deems necessary for the random selection of any
defeased Bonds that constitute less than all of a
particular maturity of the Bonds, for notice of the
defeasance to be given to the registered owners of the
defeased Bonds and to such other persons as the City
shall determine, and for any required replacement of
Bond certificates for defeased Bonds.

After the establishing and full funding of such a
trust account, the defeased Bonds shall be deemed no
longer outstanding and the City may apply any money
in any other fund or account established for the
payment or redemption of the defeased Bonds to any
lawful purposes as it shall determine, subject only to
the rights of the owners of any other Parity Bonds.

If the refunding plan provides that the defeased
Bonds be secured by money and/or Government
Obligations pending the prior redemption of the
defeased Bonds and if such refunding plan also
provides that certain money and/or Government
Obligations are pledged irrevocably for the prior
redemption of the defeased Bonds included in that
refunding plan, then only the debt service on the Bonds
which are not defeased Bonds and the refunding bonds,
the payment of which is not so secured by the
refunding plan, shall be included in the computation of
the coverage requirement for the issuance of Future
Parity Bonds and for determining compliance with rate
covenants.

Section 23. Amendments.

(a) Amendments Without Bond Owners'
Consent. The City Council from time to time and at
any time may pass a resolution or resolutions, or
ordinance or ordinances, supplemental hereto, which
resolution or resolutions, ordinance or ordinances

thereafter shall become a part of this ordinance, for any one or more of the following purposes:

(i) To add to the covenants and agreements of the City contained in this ordinance other covenants and agreements thereafter to be observed which shall not adversely affect the interests of the owners of any Parity Bonds then outstanding, or to surrender any right or power herein reserved to or conferred upon the City.

(ii) To make such provisions for the purpose of curing any ambiguities or of curing, correcting or supplementing any defective provision contained in this ordinance in regard to matters or questions arising under this ordinance as the City Council may deem necessary or desirable and not inconsistent with this ordinance and which shall not adversely affect the interests of owners of any Parity Bonds then outstanding in any material respect.

(iii) To make such changes as are necessary to permit the Bonds to be held in registered certificate form or in fully immobilized form by a Securities Depository other than DTC.

Any such supplemental resolution or ordinance of the City may be passed without the consent of the owners of any Parity Bonds at any time outstanding, notwithstanding any of the provisions of Section 23(b) of this ordinance, but only upon receipt by the City of an opinion of Bond Counsel to the effect that the amendment is permitted by the terms of this ordinance. The City shall deliver a copy of any such supplemental resolution or ordinance to the Rating Agencies prior to its passage by the City.

(b) Amendments With Bond Owners' Consent.

The City Council may, with the consent of the registered owners of not less than sixty percent (60%) in aggregate principal amount of the Parity Bonds then outstanding, pass a resolution or resolutions or ordinance or ordinances supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this ordinance or of any supplemental resolution or ordinance, except no such supplemental resolution or ordinance shall:

(i) Extend the fixed maturity of any Parity Bonds, or reduce the rate of interest thereon, or extend the times of payment of interest from their respective due dates, or reduce the amount of the principal thereof, or reduce any premium payable on the

redemption thereof, without the consent of the registered owner of each Parity Bond so affected; or

(ii) Reduce the aforesaid percentage of registered owners required to approve any such supplemental resolution or ordinance, without the consent of the registered owners of all of the Parity Bonds then outstanding.

For purposes of determining whether the registered owners of the requisite percentage of principal amount of Parity Bonds have consented to any amendment to this ordinance, the Accreted Value of Capital Appreciation Bonds shall be deemed to be the principal amount thereof.

It shall not be necessary for the consent of registered owners under this Section 23(b) to approve the particular form of any proposed supplemental ordinance or resolution, but it shall be sufficient if such consent shall approve the substance thereof.

(c) Effect of Amendment. Upon the passage of any supplemental resolution or ordinance pursuant to the provisions of this section, this ordinance shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations of the City under this ordinance shall thereafter be determined, exercised and enforced thereunder, subject in all respects to such modification and amendments, and all the terms and conditions of any such supplemental resolution or ordinance shall be deemed to be a part of the terms and conditions of this ordinance for any and all purposes.

(d) Notation on Bonds. Parity Bonds executed and delivered after the execution of any supplemental resolution or ordinance passed pursuant to the provisions of this Section 23 may have a notation as to any matter provided for in such supplemental resolution or ordinance, and if such supplemental resolution or ordinance shall so provide, new bonds modified to conform, in the opinion of the Finance Director, to any modification of this ordinance contained in any such supplemental resolution or ordinance may be prepared by the City and delivered without cost to the owners of any affected Parity Bonds then outstanding, upon surrender for cancellation of such bonds in equal aggregate principal amounts.

Section 24. Defaults and Remedies.

(a) Events of Default. The following shall constitute "Events of Default" with respect to the Bonds:

1 (i) If a default is made in the payment of the
2 principal of or interest on any of the Bonds when the
same shall become due and payable; or

3 (ii) If the City defaults in the observance and
4 performance of any other of the covenants, conditions
5 and agreements on the part of the City set forth in this
6 ordinance or in any Parity Bond Ordinance (except as
7 otherwise provided herein or in such Parity Bond
8 Ordinance) and such default or defaults have continued
9 for a period of six months after they have received from
10 the Bond Owners' Trustee (as defined below) or from
11 the registered owners of not less than twenty-five
12 percent (25%) in principal amount of the Parity Bonds,
a written notice specifying and demanding the cure of
such default. However, if the default in the observance
and performance of any other of the covenants,
conditions and agreements is one which cannot be
completely remedied within the six (6) months after
written notice has been given, it shall not be an Event
of Default with respect to the Bonds as long as the City
has taken active steps within the six (6) months after
written notice has been given to remedy the default and
is diligently pursuing such remedy.

13 (b) Bond Owners' Trustee. So long as such
14 Event of Default has not been remedied, a Bond
15 Owners' trustee (the "Bond Owners' Trustee") may be
16 appointed by the registered owners of twenty-five
17 percent (25%) in principal amount of the Parity Bonds,
18 by an instrument or concurrent instruments in writing
19 signed and acknowledged by such registered owners of
20 the Parity Bonds or by their attorneys-in-fact duly
21 authorized and delivered to such Bond Owners'
22 Trustee, notification thereof being given to the City.
23 That appointment shall become effective immediately
24 upon acceptance thereof by the Bond Owners' Trustee.
25 Any Bond Owners' Trustee appointed under the
26 provisions of this Section 24(a) shall be a bank or trust
company organized under the laws of the State of
Washington or the State of New York or a national
banking association. The bank or trust company acting
as Bond Owners' Trustee may be removed at any time,
and a successor Bond Owners' Trustee may be
appointed, by the registered owners of a majority in
principal amount of the Parity Bonds, by an instrument
or concurrent instruments in writing signed and
acknowledged by such registered owners of the Bonds
or by their attorneys-in-fact duly authorized. The Bond
Owners' Trustee may require such security and
indemnity as may be reasonable against the costs,
expenses and liabilities that may be incurred in the
performance of its duties.

In the event that any Event of Default in the sole
judgment of the Bond Owners' Trustee is cured and the
Bond Owners' Trustee furnishes to the City a
certificate so stating, that Event of Default shall be
conclusively deemed to be cured and the City, the
Bond Owners' Trustee and the registered owners of the
Parity Bonds shall be restored to the same rights and
position which they would have held if no Event of
Default had occurred.

The Bond Owners' Trustee appointed in the
manner herein provided, and each successor thereto, is
declared to be a trustee for the registered owners of all
the Parity Bonds and is empowered to exercise all the
rights and powers herein conferred on the Bond
Owners' Trustee.

(c) Suits at Law or in Equity. Upon the
happening of an Event of Default and during the
continuance thereof, the Bond Owners' Trustee may,
and upon the written request of the registered owners of
not less than twenty-five percent (25%) in principal
amount of the Parity Bonds outstanding shall, take such
steps and institute such suits, actions or other
proceedings, all as it may deem appropriate for the
protection and enforcement of the rights of the
registered owners of the Parity Bonds, to collect any
amounts due and owing to or from the City, or to
obtain other appropriate relief, and may enforce the
specific performance of any covenant, agreement or
condition contained in this ordinance or in any of the
Parity Bonds.

Nothing contained in this Section 24 shall, in any
event or under any circumstance, be deemed to
authorize the acceleration of maturity of principal on
the Parity Bonds, and the remedy of acceleration is
expressly denied to the registered owners of the Parity
Bonds under any circumstances including, without
limitation, upon the occurrence and continuance of an
Event of Default.

Any action, suit or other proceedings instituted by
the Bond Owners' Trustee hereunder shall be brought
in its name as trustee for the Bond owners and all such
rights of action upon or under any of the Parity Bonds
or the provisions of this ordinance may be enforced by
the Bond Owners' Trustee without the possession of
any of those Parity Bonds and without the production
of the same at any trial or proceedings relative thereto
except where otherwise required by law. Any such
suit, action or proceeding instituted by the Bond
Owners' Trustee shall be brought for the ratable benefit
of all of the registered owners of those Parity Bonds,

1 subject to the provisions of this ordinance. The
2 respective registered owners of the Parity Bonds, by
3 taking and holding the same, shall be conclusively
4 deemed irrevocably to appoint the Bond Owners'
5 Trustee the true and lawful trustee of the respective
6 registered owners of those Parity Bonds, with authority
7 to institute any such action, suit or proceeding; to
8 receive as trustee and deposit in trust any sums
9 becoming distributable on account of those Parity
10 Bonds; to execute any paper or documents for the
11 receipt of money; and to do all acts with respect thereto
12 that the registered owner himself or herself might have
13 done in person. Nothing herein shall be deemed to
14 authorize or empower the Bond Owners' Trustee to
15 consent to accept or adopt, on behalf of any registered
16 owner of the Parity Bonds, any plan of reorganization
17 or adjustment affecting the Parity Bonds or any right of
18 any registered owner thereof, or to authorize or
19 empower the Bond Owners' Trustee to vote the claims
20 of the registered owners thereof in any receivership,
21 insolvency, liquidation, bankruptcy, reorganization or
22 other proceeding to which the City is a party.

23 (d) Application of Money Collected by Bond
24 Owners' Trustee. Any money collected by the Bond
25 Owners' Trustee at any time pursuant to this Section 24
26 shall be applied in the following order of priority:

(i) first, to the payment of the charges,
expenses, advances and compensation of the Bond
Owners' Trustee and the charges, expenses, counsel
fees, disbursements and compensation of its agents and
attorneys; and

(ii) second, to the payment to the persons
entitled thereto of all installments of interest then due
on the Parity Bonds in the order of maturity of such
installments and, if the amount available shall not be
sufficient to pay in full any installment or installments
maturing on the same date, then to the payment thereof
ratably, according to the amounts due thereon to the
persons entitled thereto, without any discrimination or
preference; and

(iii) third, to the payment to the persons
entitled thereto of the unpaid principal amounts of any
Parity Bonds which shall have become due (other than
Parity Bonds previously called for redemption for the
payment of which money is held pursuant to the
provisions hereto), whether at maturity or by
proceedings for redemption or otherwise, in the order
of their due dates and, if the amount available shall not
be sufficient to pay in full the principal amounts due on
the same date, then to the payment thereof ratably,

according to the principal amounts due thereon to the
persons entitled thereto, without any discrimination or
preference.

(e) Duties and Obligations of Bond Owners'
Trustee. The Bond Owners' Trustee shall not be liable
except for the performance of such duties as are
specifically set forth herein. During an Event of
Default, the Bond Owners' Trustee shall exercise such
of the rights and powers vested in it hereby, and shall
use the same degree of care and skill in its exercise, as
a prudent person would exercise or use under the
circumstances in the conduct of his or her own affairs.
The Bond Owners' Trustee shall have no liability for
any act or omission to act hereunder except for the
Bond Owners' Trustee's own negligent action, its own
negligent failure to act or its own willful misconduct.
The duties and obligations of the Bond Owners'
Trustee shall be determined solely by the express
provisions of this ordinance, and no implied powers,
duties or obligations of the Bond Owners' Trustee shall
be read into this ordinance.

The Bond Owners' Trustee shall not be required to
expend or risk its own funds or otherwise incur
individual liability in the performance of any of its
duties or in the exercise of any of its rights or powers as
the Bond Owners' Trustee, except as may result from
its own negligent action, its own negligent failure to act
or its own willful misconduct.

The Bond Owners' Trustee shall not be bound to
recognize any person as a registered owner of any
Bond until his title thereto, if disputed, has been
established to its reasonable satisfaction.

The Bond Owners' Trustee may consult with
counsel and the opinion of such counsel shall be full
and complete authorization and protection in respect of
any action taken or suffered by it hereunder in good
faith and in accordance with the opinion of such
counsel. The Bond Owners' Trustee shall not be
answerable for any neglect or default of any person,
firm or corporation employed and selected-by it with
reasonable care.

(f) Suits by Individual Bond Owners Restricted.

No owner of any one or more of Parity Bonds
shall have any right to institute any action, suit or
proceeding at law or in equity for the enforcement of
same unless:

(i) an Event of Default has happened and is
continuing; and

1 (ii) a Bond Owners' Trustee has been
2 appointed; and

3 (iii) such owner previously shall have given
4 to the Bond Owners' Trustee written notice of the
5 Event of Default on account of which such suit, action
6 or proceeding is to be instituted; and

7 (iv) the registered owners of twenty-five
8 percent (25%) in principal amount of the Parity Bonds,
9 after the occurrence of such Event of Default, has made
10 written request of the Bond Owners' Trustee and have
11 afforded the Bond Owners' Trustee a reasonable
12 opportunity to institute such suit, action or proceeding;
13 and

14 (v) there have been offered to the Bond
15 Owners' Trustee security and indemnity satisfactory to
16 it against the costs, expenses and liabilities to be
17 incurred therein or thereby; and

18 (vi) the Bond Owners' Trustee has refused or
19 neglected to comply with such request within a
20 reasonable time.

21 No owner of any Parity Bond shall have any right
22 in any manner whatever by his action to affect or
23 impair the obligation of the City to pay from the Net
24 Revenue the principal of and interest on such Parity
25 Bonds to the respective owners thereof when due.

26 (g) Failure to Comply With Undertaking.

Notwithstanding anything in this Section 24 to the
contrary, the failure of the City or any obligated person
to comply with the Undertaking adopted by the Bond
Resolution pursuant to Section 21 shall not constitute
an Event of Default hereunder, and the sole remedy of
any holder of a Bond shall be to seek an order of
specific performance from an appropriate court to
compel the City to comply with the Undertaking.

Section 25. Construction Account; Deposit of
Proceeds. An account to be known as the Solid Waste
Construction Account, 1999 (the "Construction
Account") is created in the Solid Waste Fund. The
principal proceeds of the sale of the Bonds remaining
after (1) the deposit of accrued interest on the Bonds, if
any, into the Principal and Interest Subaccount and (2)
the deposit of any proceeds as determined by the Bond
Resolution into the Reserve Subaccount, shall be
deposited into the Construction Account, unless
otherwise specified in the Bond Resolution or directed
by the Finance Director, to be used for the purpose of
paying part of the costs of carrying out the Plan of
Additions and to pay for the costs of issuance of the

Bonds. Until needed to pay such costs, the City may
invest principal proceeds and interest thereon
temporarily in any legal investment, and the investment
earnings may, as determined by the Finance Director,
be retained in the Construction Account and be spent
for the purposes of that fund or deposited in the Bond
Account.

Section 26. Sale of Bonds. The Finance Director
may provide for the sale of the Bonds by public sale or
by a negotiated sale with the successful underwriter
chosen through a selection process acceptable to the
Finance Director. The terms of that sale shall be
consistent with this ordinance and shall be confirmed
by the Bond Resolution.

CUSIP numbers will be printed on the Bonds, but
neither failure to print CUSIP numbers on any Bond
nor error with respect thereto shall constitute cause for
a failure or refusal by the purchasers to accept delivery
of and pay for the Bonds in accordance with the
purchase offer. All expenses in relation to the printing
of CUSIP numbers on the Bonds shall be paid by the
City, but the fee of the CUSIP Service Bureau for the
assignment of those numbers shall be the responsibility
of and shall be paid by the purchasers.

The City will cause the Bonds to be typed,
photocopied, printed or lithographed, sealed and
executed and will furnish the approving legal opinion
of Bond Counsel regarding the Bonds, the opinion also
being printed on each Bond unless the Bond is typed or
photocopied.

Section 27. Bonds Negotiable. The Bonds shall
be negotiable instruments to the extent provided by
RCW 62A.8-102 and 62A.8-105.

Section 28. General Authorization. The Mayor
and the Finance Director and each of the other
appropriate officers of the City are each authorized and
directed to do everything as in their judgment may be
necessary, appropriate or desirable in order to carry out
the terms and provisions of, and complete the
transactions contemplated by, this ordinance. In
particular, the Finance Director may, in his discretion
and without further action by the City Council,
(a) comply with any continuing disclosure requirements
applicable to the Bonds, (b) deem final and approve the
distribution of the preliminary official statement
prepared in connection with the sale of Bonds, and
(c) change the Bond Registrar or Securities Depository
for the Bonds.

1 Section 29. Severability. The provisions of this
2 ordinance are declared to be separate and severable. If
3 a court of competent jurisdiction, all appeals having
4 been exhausted or all appeal periods having run, finds
5 any provision of this ordinance to be invalid or
6 unenforceable as to any person or circumstance, such
7 offending provision shall, if feasible, be deemed to be
8 modified to be within the limits of enforceability or
9 validity. However, if the offending provision cannot be
10 so modified, it shall be null and void with respect to the
11 particular person or circumstance, and all other
12 provisions of this ordinance in all other respects, and
13 the offending provision with respect to all other
14 persons and all other circumstances, shall remain valid
15 and enforceable.

16 Section 30. Ratification of Prior Acts. Any action
17 taken consistent with the authority but prior to the
18 effective date of this ordinance, including, if applicable,
19 but not limited to giving notices of the sale of Bonds,
20 adopting the Bond Resolution, executing contracts,
21 making fund transfers and paying warrants is ratified,
22 approved and confirmed.

23 Section 31. Headings. Section headings in this
24 ordinance are used for convenience only and shall not
25 constitute a substantive portion of this ordinance.

26 Section 32. Effective Date. This ordinance shall
take effect and be in force thirty (30) days from and
after its approval by the Mayor, but if not approved and
returned by the Mayor within ten (10) days after
presentation, it shall take effect as provided by
Municipal Code Section 1.04.020.

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Passed by the City Council the 7th day of September, 1999, and signed by me in open session in authentication of its passage this 7th day of September, 1999.

/s/ Sue Donaldson
President _____ of the City Council

Approved by me this 8th day of September, 1999.

/s/ Sue Donaldson
Mayor Pro Tem

Filed by me this 9th day of September, 1999.

/s/ Judith E. Pippin
City Clerk

{SEAL}

Appendix B
Form of Bond Counsel Opinion



FORM OF BOND COUNSEL OPINION

The City of Seattle, Washington

Re: The City of Seattle, Washington \$5,500,000 Solid Waste Revenue Bonds, 1999, Series B

We have served as bond counsel to The City of Seattle, Washington (the “City”), in connection with the issuance of the above-referenced bonds (the “Bonds”), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to the laws of the State of Washington and Ordinance 119648 and Resolution 30061 of the City, (collectively, the “Bond Legislation”) to provide the funds to pay part of the cost of carrying out a plan of additions and betterments to and extensions of the City’s Solid Waste System, to satisfy the Reserve Requirement, and to pay the costs of issuance and sale of the Bonds, all as set forth in the Bond Legislation.

Reference is made to the Bond Legislation for the definitions of the capitalized terms used and not otherwise defined herein.

The Bonds are dated October 1, 1999, and are in the denominations, bear interest payable on the dates and at the rates, mature at the times and in the amounts, and have such prepayment or redemption and other provisions as are set forth in the Bonds and in the Bond Legislation.

The Bonds are special limited obligations of the City payable from and secured solely by the Net Revenue of the Solid Waste System and by money in the Bond Account, including the Reserve Subaccount therein. The Net Revenue has been pledged to make the required payments into the Bond Account, which pledge constitutes a lien and charge upon such Net Revenue prior and superior to all other liens or charges whatsoever, except that the Bonds shall have a lien and charge upon such Net Revenue on a parity of lien and charge with the Outstanding Parity Bonds and any Future Parity Bonds.

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Under the Internal Revenue Code of 1986, as amended (the "Code"), the City is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The City has covenanted in the Bond Legislation to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the City's compliance with such requirements.

As of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The City is a duly organized and legally existing first class city under the laws of the State of Washington;
2. The Bonds are issued in full compliance with the provisions of the Constitution and laws of the State of Washington, the Bond Legislation and other ordinances and resolutions of the City relating thereto;
3. The Bonds constitute valid obligations of the City payable solely from the Net Revenue of the Solid Waste System and money in the Bond Account, including the Reserve Subaccount therein, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by principles of equity if equitable remedies are sought;
4. The Bonds are not general obligations of the City; and
5. Assuming compliance by the City after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the Bonds.

The City of Seattle, Washington
October 26, 1999
Page 3

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Bonds or otherwise used in connection with the Bonds.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

FOSTER PEPPER & SHEFELMAN PLLC

Appendix C

1998 Audited Financial Statements of the Solid Waste System

CITY OF SEATTLE, SEATTLE PUBLIC UTILITIES
- SOLID WASTE FUND

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 1998 AND 1997
TOGETHER WITH AUDITORS' REPORT

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Managing Director of Seattle Public Utilities,
City of Seattle:

We have audited the accompanying balance sheets of the City of Seattle-Solid Waste Fund (the Fund) as of December 31, 1998 and 1997, and the related statements of revenues, expenses and changes in accumulated net expenses and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Seattle-Solid Waste Fund as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The Year 2000 supplementary information on page 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB), and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because disclosure criteria specified by GASB Technical Bulletin 98-1 as amended are not sufficiently specific to permit meaningful results from the prescribed procedures. In addition, we do not provide assurance that the Fund is or will become Year 2000 compliant, that the Fund's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Fund does business are or will be Year 2000 compliant.

Arthur Andersen LLP

Seattle, Washington,
March 26, 1999

CITY OF SEATTLE, SEATTLE PUBLIC UTILITIES-SOLID WASTE FUND

BALANCE SHEETS -- DECEMBER 31, 1998 AND 1997

	<u>ASSETS</u>	
	<u>1998</u>	<u>1997</u>
UTILITY PLANT, net at cost	\$ 9,317,143	\$ 8,681,059
	-----	-----
CURRENT ASSETS:		
Cash and equity in pooled investments	1,944,767	1,472,177
Accounts receivable-		
Solid waste collection services, less allowance for doubtful accounts of \$51,400 in 1998 and \$58,500 in 1997	6,230,844	7,300,574
Unbilled collection services	888,661	913,441
Other city funds	523,051	929,316
Grants and local programs	1,300,533	1,448,562
Due from State of Washington	418,527	-
Prepays and other	32,884	57,170
	-----	-----
	11,339,267	12,121,240
	-----	-----
DEFERRED CHARGES AND OTHER:		
Deferred landfill closure and postclosure costs, net	50,805,726	54,440,727
Property held for sale	6,172,156	6,172,156
Unamortized debt expense	794,694	835,377
Deferred charges	2,706,084	661,574
	-----	-----
	60,478,660	62,109,834
	-----	-----
	\$81,135,070	\$82,912,133
	=====	=====

EQUITY AND LIABILITIES

	<u>1998</u>	<u>1997</u>
EQUITY:		
Accumulated net expenses	\$(4,309,687)	\$(5,025,788)
Contributions from other governments	437,991	437,991
	-----	-----
	(3,871,696)	(4,587,797)
	-----	-----
REVENUE BONDS:		
1989 Solid Waste Revenue Bonds	40,075,000	42,415,000
Less- Current maturities	(2,510,000)	(2,340,000)
Less- Unamortized discount and loss on bond refunding	(288,687)	(333,678)
	-----	-----
	37,276,313	39,741,322
	-----	-----
OTHER LONG-TERM LIABILITIES:		
Accrued postclosure costs, net of current portion	31,350,570	32,947,639
Other	105,516	131,830
	-----	-----
	31,456,086	33,079,469
	-----	-----
CURRENT LIABILITIES:		
Accounts payable	5,022,709	4,877,508
Wages and benefits payable	983,607	1,352,737
Due to other City funds	3,364,874	2,352,783
Current maturities of revenue bonds	2,510,000	2,340,000
Interest payable	462,746	489,656
Accrued landfill costs	366,396	396,272
Accrued postclosure costs	1,307,058	1,206,936
Unearned revenues	1,661,639	1,652,793
Other	595,338	10,454
	-----	-----
	16,274,367	14,679,139
	-----	-----
	\$81,135,070	\$82,912,133
	=====	=====

The accompanying notes are an integral part of these balance sheets.

CITY OF SEATTLE, SEATTLE PUBLIC UTILITIES-SOLID WASTE FUND

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 82,138,088	\$ 79,690,977
Cash paid to suppliers and employees	(62,596,514)	(61,418,487)
Cash paid for taxes	(12,081,171)	(11,580,619)
	-----	-----
Net cash from operating activities	7,460,403	6,691,871
	-----	-----
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating grants received	2,307,199	463,326
	-----	-----
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on revenue bonds	(2,340,000)	(2,185,000)
Capital expenditures	(4,281,036)	(606,809)
Interest paid	(2,857,206)	(3,012,773)
	-----	-----
Net cash from capital and related financing activities	(9,478,242)	(5,804,582)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	183,230	49,615
Other, net	-	834
	-----	-----
Net cash from investing activities	183,230	50,449
	-----	-----
NET INCREASE IN CASH AND EQUITY IN POOLED INVESTMENTS	472,590	1,401,064
CASH AND EQUITY IN POOLED INVESTMENTS, beginning of year	1,472,177	71,113
	-----	-----
CASH AND EQUITY IN POOLED INVESTMENTS, end of year	\$ 1,944,767	\$ 1,472,177
	=====	=====

	1998	1997
RECONCILIATION OF NET OPERATING REVENUES TO NET CASH FROM OPERATING ACTIVITIES:		
Net operating revenues	\$ 2,326,518	\$ 2,890,720
	-----	-----
ADJUSTMENTS TO RECONCILE NET OPERATING REVENUES TO NET CASH FROM OPERATING ACTIVITIES:		
Depreciation and amortization	4,633,648	4,926,502
Change in legal provision	(26,312)	(62,368)
Changes in operating assets and liabilities-		
Unbilled collection services	24,780	160,589
Accounts receivable-collection services	1,069,730	(585,294)
Receivable from other city funds	413,708	(196,008)
Other receivables	(1,499,813)	(851,020)
Prepays and other current assets	24,286	48,192
Accounts payable	145,201	120,232
Wages and benefits payable	(206,224)	131,636
Due to other city funds	1,012,091	(167,935)
Landfill closure/postclosure costs	(1,246,190)	(1,752,837)
Deferred landfill closure and postclosure costs	321,162	1,651,219
Unearned revenues and other	467,818	378,243
	-----	-----
Total adjustments	5,133,885	3,801,151
	-----	-----
Net cash from operating activities	\$ 7,460,403	\$ 6,691,871
	=====	=====

The accompanying notes are an integral part of these statements.

CITY OF SEATTLE, SEATTLE PUBLIC UTILITIES-SOLID WASTE FUND

STATEMENTS OF REVENUES, EXPENSES AND

CHANGES IN ACCUMULATED NET EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
OPERATING REVENUES:		
Residential collection services	\$48,187,601	\$47,476,156
Disposal and other	33,263,784	32,937,524
	-----	-----
	81,451,385	80,413,680
	-----	-----
OPERATING EXPENSES:		
Solid waste collection and other collection expenses	13,279,293	12,788,440
Transfer stations, hauling and disposal site operations	23,903,345	24,097,936
Waste reduction/recycling	12,231,804	11,945,564
Household hazardous waste	1,170,723	1,211,087
Litter control	2,343,866	2,559,441
General and administrative	6,042,352	4,584,975
Customer billing and collection	3,762,126	3,665,963
Taxes, including city occupation	11,757,710	11,743,052
Depreciation and amortization	1,600,442	1,643,912
Amortization of landfill closure costs	3,033,206	3,282,590
	-----	-----
	79,124,867	77,522,960
	-----	-----
Net operating revenues	2,326,518	2,890,720
	-----	-----
OTHER REVENUES (EXPENSES):		
Interest income	190,673	52,244
Operating grants	659,357	513,844
Interest expense and amortization	(2,948,458)	(3,101,324)
Other	488,011	22,725
	-----	-----
	(1,610,417)	(2,512,511)
	-----	-----
Net revenues	716,101	378,209
ACCUMULATED NET EXPENSES, beginning of year	(5,025,788)	(5,403,997)
	-----	-----
ACCUMULATED NET EXPENSES, end of year	\$(4,309,687)	\$(5,025,788)
	=====	=====

The accompanying notes are an integral part of these statements.

CITY OF SEATTLE, SEATTLE PUBLIC UTILITIES-SOLID WASTE FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Operations

The City of Seattle, Seattle Public Utilities - Solid Waste Fund (the Fund) is a public utility enterprise fund of the City of Seattle (the City). On January 1, 1997, the City created Seattle Public Utilities which brought together under one administrative umbrella the Water, Solid Waste, Drainage and Wastewater functions of the City as well as certain engineering functions. The Fund (as well as the other funds) remains separate for accounting purposes. Seattle Public Utilities receives certain services from other departments and agencies of the City, including some that are normally considered to be general and administrative. The Fund is charged a share of these costs and additionally, pays a business and occupation tax to the City's General Fund. Solid waste collection and disposal services provided to other City departments and agencies are at rates described by City ordinances.

Customer service and utility billing is performed by Seattle Public Utilities and the cost of this function is shared between the Water, Solid Waste and Drainage and Wastewater Funds. For the years ended December 31, 1998 and 1997, the Fund was charged \$2,024,809 and \$1,963,593, respectively.

The Fund is subject to regulation by the City and the State of Washington. Service rates are authorized by ordinances passed by the City Council. Accounting policies and financial reporting are regulated by the Washington State Auditor's Office, Division of Municipal Corporations, and conform to generally accepted accounting principles. Descriptions of the Fund's significant accounting policies are as follows:

Revenues

Revenues are recorded through cycle billings rendered to customers monthly or bimonthly. Amounts billed but not earned at year-end are recorded as unearned revenues. The Fund accrues and records unbilled collection service revenues in the financial statements for services provided from the date of the last billing to year-end.

Cash and Equity in Pooled Investments

The City's Executive Services Department - Finance Division invests all temporary cash surpluses for City departments. The Executive Services Department - Financial Division may, at various times, invest these surpluses in certificates of deposit issued by Washington state depositories that participate in a state insurance pool, U.S. Treasury and agency securities, prime bankers' acceptances trading in the secondary market and repurchase or reverse-repurchase agreements with primary dealers who use authorized securities as collateral. Delivery of collateral on the underlying securities is required on all repurchase agreement transactions. The Fund is allocated interest income by the City.

It is the City's policy that all investments of the Fund, except repurchase or reverse-repurchase agreements, be held by banks or trust companies as the agents of the City and in the City's name. It is City's policy to hold all investments until maturity. The Fund had no investments at December 31, 1998 and 1997.

For purposes of the statements of cash flows, the Fund considers all deposits held by the City Executive Services Department - Finance Division as cash.

Utility Plant

Costs of additions to utility plant are capitalized. Costs include direct materials, labor and indirect costs such as engineering, supervision, payroll taxes, pension benefits and interest. The cost of current repairs and maintenance is charged to expense, while the cost of improvements is capitalized.

Utility plant, net, at cost, consists of the following:

	December 31,	
	1998	1997
Buildings	\$ 8,598,383	\$ 8,363,962
Machinery and equipment	10,091,435	8,530,301
Total plant in service	18,689,818	16,894,263
Less- Accumulated depreciation	(11,228,120)	(9,879,985)
	7,461,698	7,014,278
Land	1,587,697	1,587,697
Construction in progress	267,748	79,084
Utility plant, net	\$ 9,317,143	\$ 8,681,059
	=====	=====

Depreciation

Plant in service is depreciated on the straight-line method over estimated useful lives as follows:

Transfer stations, scalehouses and related improvements	5 to 33 years
Machinery and equipment	3 to 15 years

It is the Fund's policy to begin depreciation in the year following acquisition and to record a full year's depreciation in the year of disposition.

Property Held for Sale

In 1990, the Fund purchased 350 acres of land surrounding the Kent-Highlands landfill. A portion of this land will become part of the landfill area, with the excess held for sale. This property is carried at the lower of cost or fair market.

Deferred Computer Development Costs

The Fund pays its portion of new computer systems developed by other City departments. During 1998, contributions were made to systems to replace both the Seattle Financial Management System, and the Combined Utility Billing System. No amortization expenses were incurred during 1998. Amortization will begin in 2000 and 2001 after these two new systems are put in service in 1999 and 2000, respectively.

Compensated Absences

Employees earn vacation based upon their date of hire and years of service and may accumulate earned vacation up to a maximum of 480 hours. Unused vacation at retirement or normal termination is considered vested and payable to the employee. Earned but unused vacation is accrued as a liability of the Fund.

Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. Employees are paid 25% of the value of unused sick leave upon retirement. They are not paid for unused sick leave if they leave before retirement. The Fund records a liability for estimated sick leave payments.

Reclassifications

Certain reclassifications have been made to prior year balances to provide a presentation consistent with the current year.

2. REVENUE BONDS:

The Fund is required, among other covenants, to create a reserve subaccount to secure the payment of the principal and interest on its 1989 Solid Waste Fund Revenue Bonds and any future parity bonds; in lieu of a reserve subaccount, the Fund may provide an alternate security. The alternate security is in the form of a credit agreement between an insurance company and the City. The credit agreement with the insurance company provides a line of credit for the full amount of the reserve requirement.

The 1989 Solid Waste Revenue Bonds are due periodically through the year 2009 and bear interest at rates ranging from 6.80% to 7.00%. Debt service requirements on the bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
1999	\$ 2,510,000	\$ 2,689,254	\$ 5,199,254
2000	2,690,000	2,507,881	5,197,881
2001	2,885,000	2,312,756	5,197,756
2002	3,095,000	2,103,456	5,198,456
2003	3,320,000	1,878,931	5,198,931
Thereafter	25,575,000	5,629,928	31,204,928
	-----	-----	-----
	\$40,075,000	\$17,122,206	\$57,197,206
	=====	=====	=====

3. RETIREMENT PLANS:

Pension

All permanent Fund employees are eligible to participate in the Seattle City Employees' Retirement System (the System), a cost-sharing public employee retirement system operated by the City. Benefits vest after five years of covered service. City employees may retire after 30 years of service regardless of age; after age 52, with 20 or more years of service; after age 57, with 10 or more years of service; and after age 62, with five or more years of service. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by City ordinances. The System's financial report that includes financial statements and required supplementary information for the System is available through the City.

City employees are required to contribute 8.03% of their annual base salary to the System. The City is required to contribute 8.91% of its covered payroll to fund the System. Employer rates are established by City Council on a biannual basis. The Fund's contributions to the System for the years ended December 31, 1998, 1997 and 1996 were approximately \$599,000, \$570,000 and \$556,000, respectively. The Fund's contribution in 1998 represents its full liability to the System.

Deferred Compensation

The City offers its employees a deferred compensation plan (the Plan), created in accordance with the Internal Revenue Code, Section 457. The Plan, available to all City employees, permits employees to defer a portion of their salary until future years. The deferred compensation is paid to employees upon termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the Plan and all income attributable to those amounts are (until paid or made available to the employee or other beneficiary) solely the property and right of the City, subject only to the claims of the City's general creditors. Participants' rights under the Plan are equal to those of general creditors of the City in an amount equal to the fair-market value of the deferred account for each participant. The amounts deferred are the property of the City, the Fund's oversight entity. As such, the Plan assets and the corresponding liability to employees for deferred compensation and accumulated net earnings thereon are not separately reported in the Fund's balance sheet but are instead reported in an agency fund in the City's comprehensive annual financial report.

Effective January 1, 1999, in accordance with recent changes to Internal Revenue Code, Section 457, the City placed the plan assets into trust for the exclusive benefit of plan participants and beneficiaries.

The City's legal counsel believes that the City has no liability for losses under the Plan. Under the Plan, participants select investments from alternatives offered by the Plan Administrator, who is under contract with the City to manage the Plan. The investment selection by a participant may be changed from time to time. The City does not manage any of the investment selections. By making the selection, enrollees accept and assume all risks that adhere to the Plan and its administration.

4. RISK FINANCING LIABILITIES:

The City and the Fund are self-insured for certain losses arising from personal and property damage claims by third parties and for casualty losses to the Fund's property. Liabilities for identified claims have been recorded by the Fund.

At December 31, 1995, the City initiated a program to convert its insurance plan for workers' compensation claims to a cost-reimbursement program. The Fund was not included in the first phase of the program but became a participant in 1996. The liability had formerly been recorded in the City's Industrial Insurance Fund. However, the City still maintains the liability for estimated incurred but not reported claims. The City's current intentions are to transfer the liability for estimated incurred but not reported claims to the Fund in 1999, when sufficient historical claims data is available to perform a more detailed actuarial study.

For 1998 and 1997, liabilities for workers' compensation claims as well as other claims are discounted over an eight-year period at the City's rate of return on investments, 6.12% and 5.40%, respectively. Claims expected to be paid within one year were \$31,641 and \$67,665, at December 31, 1998 and 1997, respectively, and are included in other current liabilities. The long-term portion is included in other long-term liabilities. The schedule below presents the changes in the liability for workers' compensation claims as well as other claims, combined (risk financing liabilities).

	Risk Financing Liabilities	
	December 31,	
	1998	1997
Beginning liability	\$ 199,495	\$ 223,965
Payments	(144,659)	(521,816)
Incurred claims and changes in estimates	82,321	497,346
Ending liability	\$ 137,157	\$ 199,495
	=====	=====

5. CONTRACTUAL OBLIGATIONS:

The Fund has several contracts with outside disposal companies for the collection of garbage and rubbish. The contracts include certain additional costs related to yard waste, bulky items and backyard service. The Fund estimates that the total collection costs, including the additional costs, for 1999 will be approximately \$22,590,431. Total payments under prior contracts during 1998 and 1997 were approximately \$22,319,000 and \$21,720,000, respectively.

In 1996, the Fund agreed to extend the first option date in the previously existing contract with Washington Waste System (WWS) (that is, the first date at which it can choose to unilaterally terminate the contract) from March 31, 2001 to March 31, 2006. In exchange, WWS agreed to reduce the contract price from approximately \$45/ton in 1996 to \$41.57/ton beginning April 15, 1997. In addition, WWS agreed to reduce the price escalator in the contract from 90% of the Seattle-Tacoma CPI to 80%, effective April 15, 1998. Finally, the contract price will be \$43.70/ton beginning in April 2002. The Fund paid WWS approximately \$19,359,000 and \$19,055,000 under this contract in 1998 and 1997. The Fund approximates these costs to be \$20,676,000 in 1999.

6. LANDFILL CLOSURE AND POSTCLOSURE CARE:

In prior years, the Fund delivered its refuse to two leased disposal sites: the Midway and Kent-Highlands landfills. Subsequent to signing the original lease agreement, federal and state requirements for closure of landfill sites were enacted. The Fund stopped disposing of municipal waste in the Midway site in 1983 and in the Kent-Highlands site in 1986.

Subsequent to their closing, the Kent-Highlands and Midway landfills were declared Superfund Sites by the federal government. In the same time period, nearby landowners, residents and the federal and state governments made various claims of damages related to these landfills and sought various forms of relief. These claims have been settled, and the City does not anticipate further actions related to Kent-Highlands and Midway. Any future changes in the accrued landfill liability will be reflected in Solid Waste Fund rates.

In 1996, the City filed suit against various parties that disposed of waste at the Kent-Highlands landfill. In its suit, the City asserted that these parties (according to the Comprehensive Environmental Response, Compensation and Liability Act) are liable for a portion of the cost of closing the Kent-Highlands landfill. The City completed settlement with the defendants in this suit in December 1997 and has recovered approximately \$2.23 million. The City settled a similar suit relating to the Midway landfill in 1994 and has since recovered \$6.4 million. The City does not anticipate any further legal actions relating to either landfill.

In 1994, the Fund adopted GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs." This statement requires all future postclosure costs at closed landfills to be accrued. At December 31, 1998 and 1997, accrued landfill and postclosure costs consists primarily of monitoring, maintenance and repair costs. It is the City Council's policy to include the Fund's share of all landfill closure and postclosure costs in the revenue requirements used to set future solid waste rates. Therefore, total estimated landfill closure and postclosure care costs are accrued and also reflected as a deferred cost in the accompanying financial statements. These costs are being amortized as they are recovered from rate payers.

7. SUBSEQUENT EVENT:

In February 1999, the Fund issued \$40,900,000 of Solid Waste Revenue Refunding Bonds for the purpose of refunding the outstanding Solid Waste 1989A and 1989B Series. The 1999 Refunding Bonds bear interest at rates ranging from 4.75% to 5.50% with maturities between 1999 and 2009. The refunding was structured to obtain an economic gain (the difference between present values of the old and new debt service payments) of \$2,955,183.

SOLID WASTE FUND

SUPPLEMENTARY INFORMATION
(Unaudited)

Solid Waste Fund

Year 2000 Readiness Disclosure Statement:

The Year 2000 issue involves the way computers process dates. In order to save memory and processing time programmers in the early days of computing left off the century portion of a date. An example of this short cut is 1/1/99 to represent the first day of 1999. Unfortunately, when computing spans a century the use of two digit years become ambiguous e.g. does 00 refer to 1900 or 2000? The problem has already impacted some of the City's forward-looking processes such as building permit and court date scheduling. Both of these systems have been remediated and placed back into production and are currently processing 21st century dates.

The City of Seattle has completed an inventory of computer systems and other electronic equipment that support vital city services. The City has identified systems requiring Year 2000 remediation, including the following which are related to the Solid Waste Fund. Seattle Public Utilities has taken action to reduce the risk of interruption to its business operations and service delivery due to Year 2000 issues, as follows.

<u>System</u>	<u>Awareness</u>	<u>Assessment</u>	<u>Remediation</u>	<u>Validation /Testing</u>
<i>CUBS Combined Utility Billing System</i>	Completed	Completed	Completed	Completed
<i>Landfill Gas Monitoring System</i>	Completed	Completed	Completed	

There were no remaining contracted amounts at December 31, 1998 for the CUBS system, which was complete before then. No contracted amounts are outstanding at December 31, 1998 for the Landfill Gas Monitoring System because it is being remedied with in house resources. This system monitors methane levels produced in the landfills.

Following are additional City identified systems, which affect this fund, but for which other Departments are primarily responsible:

- *Seattle's Financial Management System.* In early 1997 the City recognized that its financial management system required substantial remediation to function beyond the end of 1999. In the fall of 1997 the City began installation of a new Year 2000 compliant financial management system. This new system was in the validation and testing stage as of 12/31/98, and is scheduled to go into production in July of 1999.
- *Human Resources Information System.* The City outsources its payroll processing, and the vendor has certified that the payroll system is year 2000 compliant. The HR portion of HRIS was in the assessment stage at 12/31/98, with validation and testing beginning in April, 1999.

Because of the unprecedented nature of the year 2000 issue, it's effect and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the City is or will be Year 2000 ready, that the City's remediation efforts will be successful in whole or in part, or that the parties with whom the City does business will be year 2000 ready. The City continues to refine its Y2K remediation methodology to confirm that it has identified and remediated other equipment it requires to conduct City operations.

Appendix D
Book-Entry Transfer System

Book-Entry Transfer System

The following information has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Purchasers of the Bonds (the "Beneficial Owners") should confirm the following with DTC or its participants (the "Participants").

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede and Co. (DTC's partnership nominee). One fully registered Bond certificate will be issued for each maturity of the Bonds, as set forth on the cover of this Official Statement, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that the Participants deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in accounts of the Participants. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system also is available to others such as banks, brokers, dealers, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Bonds under the DTC system, in the denominations of \$5,000 or any integral multiple thereof, must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each Beneficial Owner is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede and Co. The deposit of Bonds with DTC and their registration in the name of Cede and Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements that may be in effect from time to time.

Redemption notices will be sent to Cede and Co. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in Bonds to be redeemed.

Neither DTC nor Cede and Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede and Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Bond Registrar or the City, subject to any statutory or regulatory requirements that may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City and the Bond Registrar, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Bond Registrar. Under such circumstances and in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

DTC management is aware that some computer applications, systems and the like for processing data ("Systems") that are dependent upon calendar dates, including dates before, on and after January 1, 2000, may encounter "Year 2000 problems." DTC has informed its participants and other members of the financial community (the "Industry") that it has developed and is implementing a program so that its Systems, as the same relate to the timely payment of distributions (including principal and interest payments) to security holders, book-entry deliveries and settlement of trades within DTC ("DTC services"), continue to function appropriately. This program includes a technical assessment and remediation plan, each of which is complete. Additionally, DTC's plan includes a testing phase, which is expected to be completed within appropriate time frames.

However, DTC's ability to perform properly its services is also dependent upon other parties, including but not limited to issuers and their agents, as well as third party vendors from whom DTC licenses software and hardware, and third party vendors on whom DTC relies for information or the provision of services, including telecommunication and electric utility service providers, among others. DTC has informed the Industry that it is contacting (and will continue to contact) third party vendors from whom DTC acquires services to (i) impress upon them the importance of such services being Year 2000 compliant and (ii) determine the extent of their efforts for Year 2000 remediation (and, as appropriate, testing) of their services. In addition, DTC is in the process of developing such contingency plans as it deems appropriate.

According to DTC, the foregoing information with respect to DTC has been provided to the Industry for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

The following information has been provided by the City.

The City may decide to discontinue use of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

Neither the City nor the Bond Registrar will be required to transfer or exchange Bonds during the period between a record date and the next succeeding interest payment date or redemption date. For purposes hereof, record date will mean in the case of each interest payment date, the Bond Registrar's close of business on the 15th day of the month preceding the interest payment date.

With respect to Bonds registered on the Bond Register in the name of Cede and Co., as nominee of DTC, the City and the Bond Registrar will have no responsibility or obligation to any Participant or to any person on behalf of whom a Participant holds an interest in the Bonds with respect to (i) the accuracy of the records of DTC, Cede and Co. or any Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Participant or any other person, other than a bond owner as shown on the Bond Register, of any notice with respect to the Bonds, including any notice of redemption, (iii) the payment to any Participant or any other person, other than a bond owner as shown on the Bond Register, of any amount with respect to principal of and premium, if any, or interest on the Bonds, (iv) the selection by DTC or any Participant of any

person to receive payment in the event of a partial redemption of the Bonds, (v) any consent given or action taken by DTC as registered owner, or (vi) any other matter. The City and the Bond Registrar may treat and consider Cede and Co., in whose name each bond is registered on the Bond Register, as the holder and absolute owner of such bond for the purpose of payment of principal and interest with respect to such bond, for the purpose of giving notices of redemption and other matters with respect to such bond, for the purpose of registering transfers with respect to such bond, and for all other purposes whatsoever.

The City's obligations under the Ordinance, the Resolution and the Bonds are to the registered owner or owners of the Bonds, and the City will not be liable to the Participants or Beneficial Owners of Bonds registered in the name of any nominee of DTC or a successor depository for any acts or omissions of DTC or such successor depository.

Appendix E

Specimen Municipal Bond Insurance Policy